COMMON SENSE

A Simple Plan for Financial Independence

by Art Williams

Get Started Now

Pay Yourself First

Use Time & Consistency

Establish An Emergency Fund

Buy The Right Life Insurance

Minimize Taxes With An IRA

Bypass The Middleman

Invest With Professional Management

Start A Family Tradition

Develop A Winning Attitude

NEW! Fourth Edition

COMMON SENSE

I believe that almost everyone has basic common sense. Common sense is simply the ability to make the right decision. But in order to make the right decision, you need **all the facts.** Once you have them, your common sense will tell you what to do.

The problems come when you act on impulse or emotion. When you don't get all the facts before making a decision, many times these decisions turn out to be wrong.

What I want to do in this book is to give you **all the facts** about how you can become financially free. Then, I believe your common sense will tell you what is right for you and your family.

2 —

COMMON SENSE

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REVISED — FOURTH EDITION

- Over 9 million copies currently in print
- Now selling over 250,000 per month
- Available in Spanish language edition
- Soon to be available in Canadian edition
- Requested for use in over 9 foreign countries
- Used as a text for economics, business and insurance courses in colleges and high schools throughout the U.S.
- Requested for use by financial institutions, CPA fraternal organizations and Federal government agencies
- Requested by over 3,000 viewers following Art Williams appearance on "The 700 Club" television program

To my wife, Angela

The most special person I've ever known, my inspiration, and the greatest joy of my life.

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DO YOU CONSIDER YOURSELF AN "AVERAGE AMERICAN?"

Then take a look at these statistics:

- **THE AVERAGE AMERICAN SAVES LESS THAN ANYONE IN THE WORLD.** In 1983, we saved 4.8% of our disposable income, compared to 14.4% by the West Germans, 15.5% by the French and 20% by the Japanese.[1]
- **MOST AMERICANS WILL RETIRE IN POVERTY.** According to a recent Census Bureau survey, 87% of Americans 65 or older were living on a meager income of less than $10,000 a year.[2]
- **IF YOU DIED TODAY, CHANCES ARE YOUR FAMILY WOULD BE PROTECTED FOR LESS THAN A YEAR.** Statistics show that the "average" family carries death protection of $17,384. In 1983, the average death claim paid was only $5,878![3]

Alarming? Yes, very. But this very minute you're probably about to dismiss these scary figures as "not applicable" to your personal situation. Are you sure? Didn't you just agree that you were an "average American?" Before you turn the page and forget it, think seriously about your financial progress. Forget your plans for a moment. What have you actually **done** to prevent being a statistic?

I'm quoting these statistics, not to scare you, but to point out dramatically that most Americans are making some serious financial mistakes. Remember, the thousands of individuals who make up those statistics didn't think it could happen to **them.**

No-one intends to let his goals of security and financial freedom slide. It just happens. Most people make the same basic financial mistakes:

1. LACK OF PLANNING.
2. LACK OF KNOWLEDGE ABOUT THE WAY SAVINGS AND PROTECTION VEHICLES WORK.
3. DEPENDENCE ON "SOMEONE ELSE" TO BE RESPONSIBLE FOR THEIR FINANCIAL FUTURE (BANKERS, BROKERS, INSURANCE AGENTS, ACCOUNTANTS, ETC.).
4. PROCRASTINATION.

Enough about the problems. This is a book about **solutions,** about how to make your money work for you. In this book, I want to show you how to avoid these mistakes and how to get started **now** on the road to total financial independence. If you follow the simple plan outlined here, you'll never become one of the "statistics."

Let's get started!

MY OWN STORY — AND WHY I'M INTERESTED IN YOUR FUTURE

I became interested in investments and insurance completely by accident. I was coaching football and teaching in Columbus, Georgia. At a PTA meeting, I met a manager for a financial services group who believed in term insurance plus investments as a way to build financial security.

Our meeting seemed destined because my accountant-cousin had talked to me about the same philosophy only a few weeks before. I had personal reasons for being interested. My father had died suddenly and tragically of a heart attack at age 48. My family was devastated. There were three children: I was in college, one brother was in high school and another brother was in the sixth grade. My mother spent the next 13 years struggling to raise her boys. My dad had too little life insurance, no will, little savings and no retirement program.

When my cousin explained to me that the purpose of life insurance was protection only, and that I could have $100,000 of term insurance for the same money I was paying for $15,000 of whole life insurance, I was stunned. I thought I was protecting my family in the best way that I could.

I was skeptical, so I went to the library in Columbus to research it. As an educator, I wanted to find the answer, and knew that consumer organizations could help. I found *Consumer Reports*, *Changing Times* and a great book, *What's Wrong With Your Life Insurance?* All of these publications confirmed what my cousin had told me. This revelation excited me so much that I began to talk to others about it. In most cases, I found their financial programs were disasters, just like mine and my dad's.

The man I met at the PTA meeting offered me a job selling with his company. I didn't want to be a life insurance salesman, but I felt that I would not be selling people "just another insurance policy." I wanted to provide my friends a chance to do what I had just learned to do — take the same money they were spending and get more value for it. I wanted to help them with investments, savings and taxes — their whole financial program.

I was "fired up." I worked quickly to get my insurance and securities licenses. I wanted to give my clients the same information I used myself to understand financial services. I wanted people to be comfortable with me. I tried not to "talk down" to them as I've had salesmen do to me. I sold what I believed in myself.

Then a funny thing happened. I began to earn more money with my new part-time job than I was earning as athletic director and head football coach. After two and a half years part time, I had accumulated over $40,000. I decided to make financial planning my full time profession.

I became totally financially independent seven years later. I did this through a combination of efforts in both my business life and personal life. But if someone hadn't opened my eyes to the basics of sound financial planning, I would probably still be struggling today.

Since I accidentally got started in this business, my life has been blessed in a special way. I know what a difference being secure financially has made in my own life, and the life of my family. In the last 16 years, I have had the joy of sharing the promise of financial security with many people. I have counseled with thousands of families in almost every state, and have developed 10 principles into a road map for **total financial independence.** These principles have worked for me personally, and for an amazing number of other families. They can help you, too, to have more financial security and peace of mind.

There's no trick to financial success. It's so simple, if you just take the time to think it over. I hope you'll take that time with this book.

Art Williams

CAN YOU MANAGE YOUR FINANCIAL FUTURE?

A few years ago, I heard about a speech made by a high-powered insurance executive during a seminar. The point of his speech was that the average American family was not smart enough to look at all the options and make intelligent decisions about what they needed —they needed to have someone to tell them. Ridiculous! I believe that **most financial institutions have deliberately complicated a simple business** to confuse the American people so they can sell them high-cost, low-quality products and services.

People of average intelligence, like you and me, can understand financial matters, given the facts.

You do have options.

There are options available, *if you know what they are*, that can minimize your taxes, give you more disposable income and allow for the kind of wise investments that can make you and your family more financially secure, even wealthy.

What You Need Is a Plan.

My experience has shown me that planning and investing for your future is nothing but a simple mathematical problem, like 2 + 2 = 4, and a math problem has only one answer. I want to give you that answer.

Planning is the first step.

The key to financial independence is not necessarily having a lot of money to invest (most of us don't); it's not necessarily being in the right place at the right time. There are no tricks and gimmicks. Luck is not necessary. And you certainly don't have to be a financial genius.

All you need is a plan. Planning is the first step to taking control of your financial future. It doesn't take a genius to figure out that you can't reach a destination without a road map. You have to have a plan. It should be flexible, but firm, and (this is important) you must stick to it!

Stick to the Fundamentals.

Planning isn't difficult if you stick to the fundamentals. When I coached football, I believed that the fundamentals were the key to victory. No matter how smart, talented or sophisticated you were, you won by out-blocking, out-tackling and being in better physical

condition than your opponent. After fourteen years in the financial planning business, I believe that fundamentals are the key to **financial victory**, as well.

Remember that old saying, "Watch your pennies and your dollars will take care of themselves?" It's still true.

The fundamentals of financial independence are so simple, so obvious. People spend their whole lives looking for a better way, a "get rich quick" scheme, only to find out after it's too late that if they had done the little things, the obvious things, *the fundamentals*, they would be in great shape.

My Plan Has 10 Basic Principles:

GETTING STARTED	1. Get Started Now. 2. Pay Yourself First. 3. Use Time & Consistency. 4. Establish an Emergency Fund. 5. Buy the Right Life Insurance.
MOVING FORWARD	6. Minimize Taxes with an IRA. 7. Bypass the Middleman. 8. Invest with Professional Management.
EXTRA HELPS	9. Start a Family Tradition. 10. Develop a Winning Attitude.

It works! And I hope it helps you become totally free of financial worries.

GET STARTED NOW

PRINCIPLE #1

WHERE WILL I GET THE MONEY?

Problem: *Most people have too much* ***month*** *[illegible] end of the* ***money***. *They don't have "extra money" to [illegible] for the future. The present is tough enough.*

Solution: *No matter what your income, you can find money to save. It's a matter of [illegible] your income and priorities.*

Whenever I talk to people about beginning to build for financial freedom, their [illegible] response is [illegible]. "Building [illegible] estate is a great idea, but my family doesn't have any extra money to invest each month. We do well [illegible] pay the bills and keep our heads above water." You're probably [illegible] the same thing right now. Even families with above average incomes are [illegible] by inflation and the tax bite.

But don't give up [illegible]. If you're serious about building [illegible] are ways to [illegible] your present income [illegible] are earning NOW [illegible] funds for investment.

Let's look at some options.

1. PAY YOURSELF FIRST. [illegible] concepts in this book, and an entire chapter [illegible] later. [illegible] paying [illegible] yourself and your [illegible] before [illegible] other demands [illegible] a set amount EACH AND EVERY MONTH [illegible] no matter what other [illegible] amazing how [illegible] amount regularly at a good rate of return.

2. ADJUST YOUR PRIORITIES. [illegible] people, you spend money on things that you don't really need. [illegible] don't really **manage** the money [illegible] you just spend as expenses come up. Don't feel bad about [illegible] more [illegible] management [illegible] about your spending habits [illegible] of your spending.

Take charge of your money.

Budget for success.

Probably the best way [illegible] by **budgeting**. [illegible] what you [illegible] spend on certain items and [illegible] that [illegible] can make a wonderful d[illegible] where your money goes.

Budgeting [illegible] a great way [illegible] where you're wasting money. [illegible] make [illegible] even a legal pad.

[illegible] the month [illegible] opener. [illegible] be amazed [illegible]

Let's take an easy example

> Suppose you and your family attend a Little League ba[illegible] game once a week. Let's say you have two children. It costs $[illegible] for the four of you to eat at the game. At four games a month, that's $[illegible]. During the entire Little League season, say 3 months, you'll spend $1[illegible]. If you spent $[illegible] of those dollars in groceries during that period to make sandwiches at home and carry them to the game, you'd have $[illegible] more that could be invested for your future! And you haven't deprived yourself of anything!

You see how [illegible] by making [illegible] in your [illegible] for building financial security.

[illegible] prepare a rough budget [illegible] and **put a dollar amount limit** on what you will spend for each. [illegible]

The main purpose of a budget is [illegible] money [illegible] the feeling that you are in control of your money rather than your activities and expenses controlling you.

You can't have everything.

[illegible] ADJUST YOUR LIFESTYLE. [illegible] be made [illegible] **you can't have everything.** [illegible] **have to make sacrifices for a period of time.**

A part [illegible] you need and what you [illegible] **need** a **second car, but you might want a Cadillac.**

[illegible] can have **more**

[illegible] home for the balance of time

[illegible] extravagance without any decrease in enjoyment!

4 EARN ADDITIONAL INCOME [illegible] extra income for starting your investment program

[illegible]

Get a part-time job.

[illegible] more money to invest!

5 REALIGN YOUR ASSETS [illegible] plan started immediately

There are two major areas in which most Americans are not getting their money's worth

A Low interest savings accounts or accumulations with banks, savings and loans and insurance companies. [illegible] that has the potential for higher returns.

"Free up" money to invest

B Low value, high cost life insurance. [illegible] and currently save as much as 30-70%

[illegible] this book

[illegible]

Account. When you invest the maximum amount allowed in an IRA [illegible] deduct [illegible] your taxable income [illegible] saving money you would normally pay [illegible] Sam.

6. **AVOID THE CREDIT TRAP** Credit cards are good for conven[illegible] [illegible] emergencies. But be careful [illegible] common [illegible] the end of each [illegible] finance charges. [illegible] card — whether [illegible] "charge it," but you'll have to pay up sooner or later.

Installment loans [illegible] another area [illegible] It's tempting [illegible] the loan [illegible] damaged [illegible] repair [illegible] and pay cash instead — it's the only way to win!

For purchases like [illegible] save your money and pay cash [illegible] loan for a [illegible] automobile insurance.

Now [illegible] options [illegible] pages ago [illegible] money to start on your path to financial freedom. But these are the tools. You can do it. [illegible]

[illegible] **plan**. We've already [illegible] before [illegible] change [illegible] take control of your future.

WHERE DO I GET THE MONEY TO INVEST?

PAY YOURSELF FIRST

PRINCIPLE #2

Problem *[illegible] left to save*

Solution *[illegible] check to yourself for 10% of your income*

Why Is Paying Yourself First So Important?

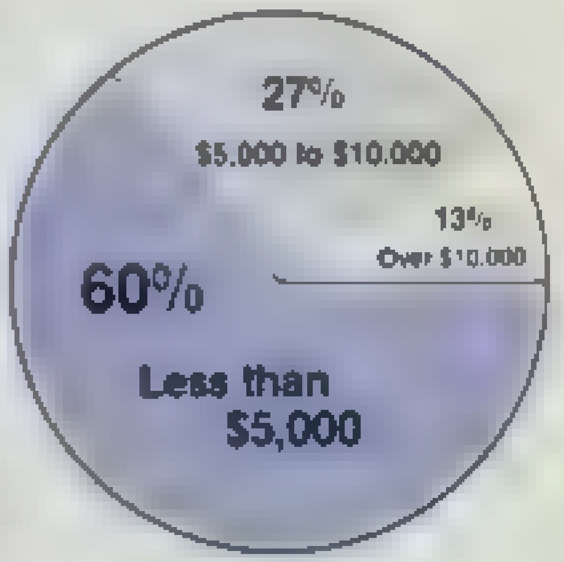
[illegible] is the situation of retired people in America

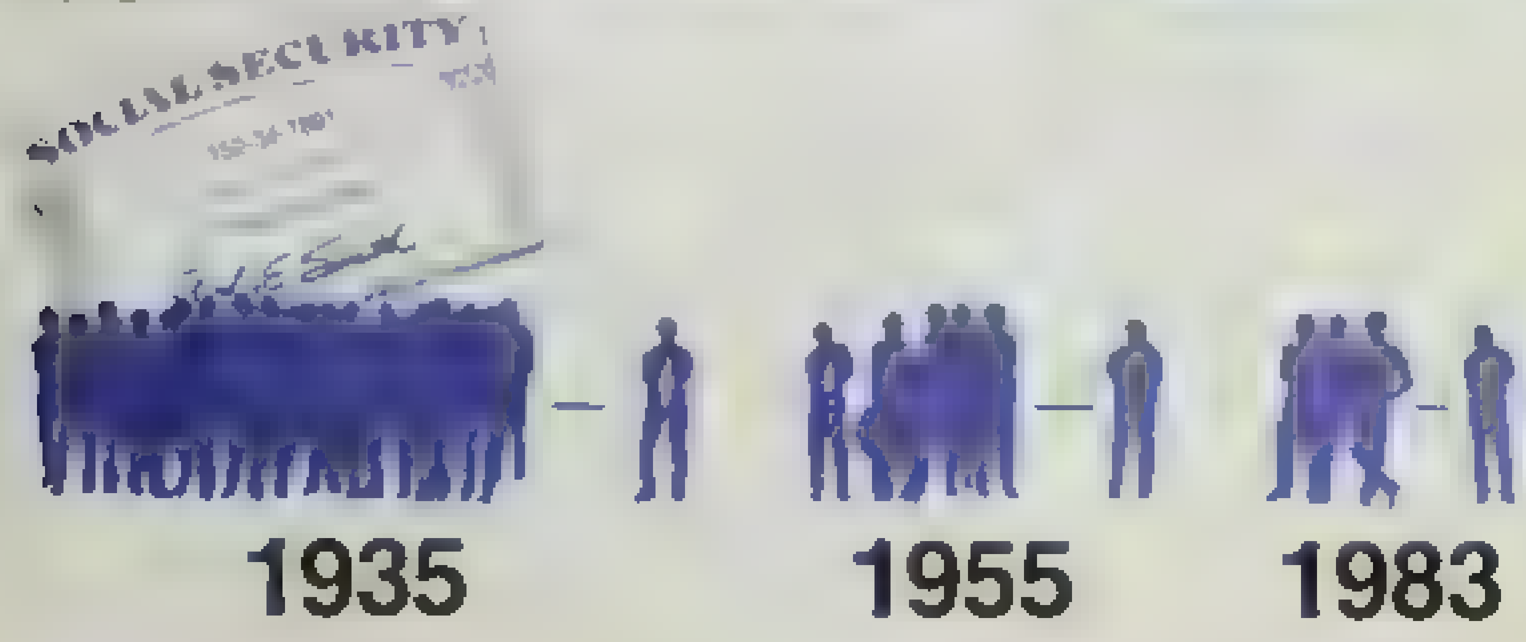
[illegible] retire with dignity

[illegible] less than [illegible]

[illegible] the world

[illegible] likely to go even lower[1]





[illegible]
way you do.

YOU'LL EARN A FORTUNE IN YOUR LIFETIME

How are you doing so far?

[illegible]
lifetime.

For example:

Average of \$12,000 for 40 years = \$480,000

Average of \$20,000 for 40 years = \$800,000

Average of \$30,000 for 40 years = \$1.2 million

[illegible] **But it's not how much money you earn that counts, it's how much you keep that really matters.**

IT'S NOT WHAT YOU EARN — IT'S WHAT YOU KEEP

[illegible] **How much of this amount have you saved?** [illegible] you've earned over the years is reflected there?

Divide ____________ by

[illegible]

[illegible]

PUT YOURSELF AT THE HEAD OF THE LINE

[illegible] **paying yourself first.** [illegible]

[illegible] the down payment on a home

[illegible] cies, and the other for long range goals

YOUR "DO NOT TOUCH" FUND

[illegible] don't touch it! [illegible]

[illegible] You're taking a step backward each time you withdraw for something other than a major goal.

Don't "put and take."

THE MAGIC OF COMPOUND INTEREST

[illegible] working for you

Your dollars are your employees.

[illegible] your future

PRINCIPLE #3

USE TIME & CONSISTENCY

[illegible] a lot of money you have [illegible] substantial sum of money requires only two things:

1. TIME
2. THE DISCIPLINE TO CONSISTENTLY WORK TOWARD A GOAL

[illegible] as soon as we set our sights on a goal that can be attained.

[illegible] acquired $[illegible] — time and [illegible]

I used to think that the interest rate on an investment was pretty simple — you invest your money at [illegible] and get [illegible] in return. Then if your investment returned 10[illegible] it would be [illegible] Right?

WRONG! That's when someone showed me a compound interest table and explained the "magic" of compound interest.

$1,000 - Lump Sum Investment
(invested one time only)

	20 Years	30 Years	40 Years	50 Years	60 Years	70 Years
5% -	$2,653	$4,321	$7,039	$11,467	$18,679	$30,426
10% -	6,727	17,449	45,259	117,390	304,481	789,747

[illegible] counts. The amount of time that you maintain a consistent savings program makes a big difference, too.

TIME IS ON YOUR SIDE

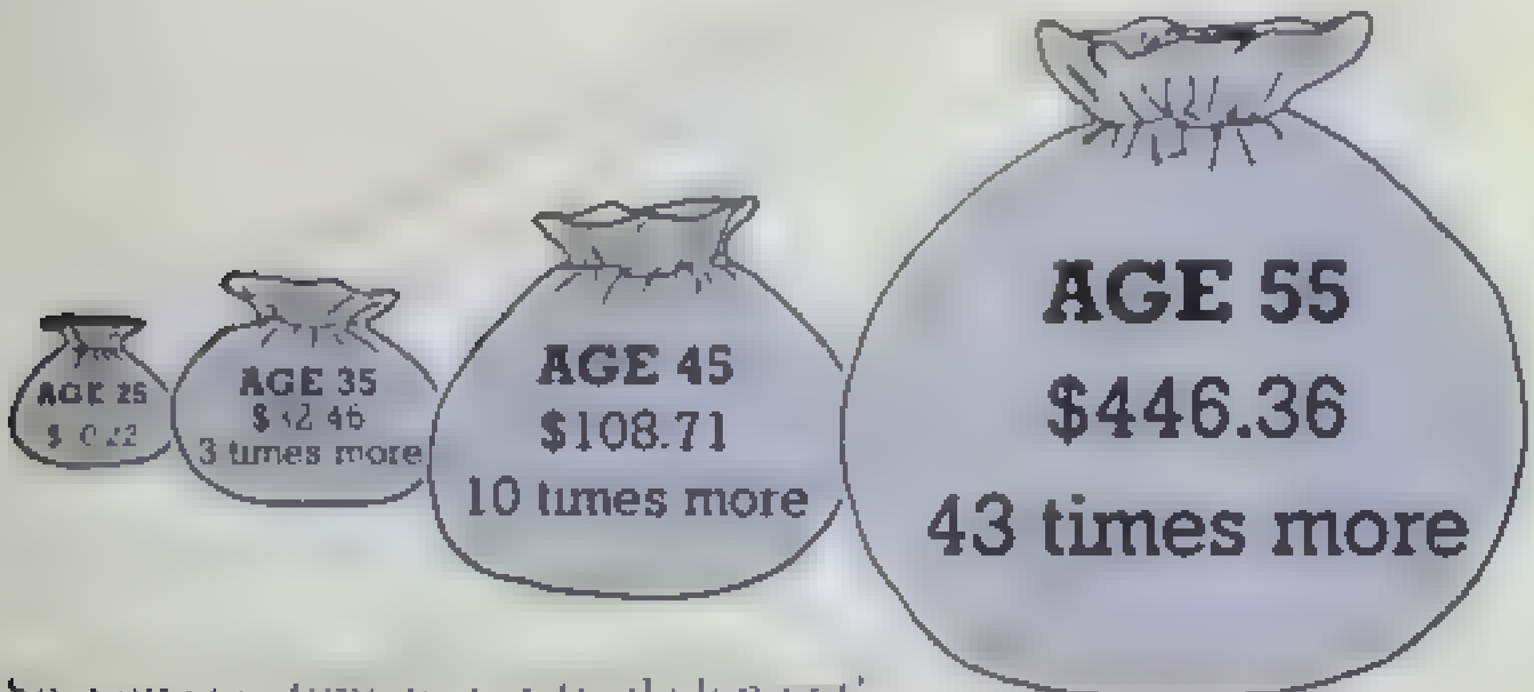
Problem [illegible] *too late*

Solution [illegible] *if you start investing soon enough. Let time work for you*

[illegible] to erode this plan.

Suppose you are 25 and have a [illegible] age. You could accomplish this by [illegible] per month at 12%! I know it seems amazing [illegible] And it's also true that anyone can manage to save $1[illegible] per month, no matter what their [illegible] the goal — $100,000 at 65 — [illegible]

GOAL
$100,000 at Age 65
(@ 12% Interest)*



So, you see, time is a critical element!

[illegible]

[illegible] One thing is certain: you can't afford the high cost of waiting.

How Money Works - The Price of Waiting

		Total at Age 65	Cost to Wait
Begin Saving:	Age 25	$[illegible]	
	Age 26	261,[illegible]	$12,[illegible]
	Age 30	116,858	179,[illegible]

[illegible]

Time + $ Amount Lead to Success

If you save $10 /month beginning now, at an annual rate of 12%, then:

at the end of	20 Years	30 Years	40 Years	50 Years	60 Years	70 Years
you will have saved *	$[illegible]	$[illegible]	$[illegible]	$[illegible]	$953,[illegible]	$2,961,806

BEGIN WITH A LUMP SUM

[illegible]

If you save $120 today in addition to the $10 /month, at 12%, then:

at the end of	20 Years	30 Years	40 Years	50 Years	60 Years	70 Years
you will have saved *	$[illegible]	$[illegible]	$[illegible]	$[illegible]	$1,061,578	$3,299,342

By starting with a lump sum payment of $120 to your account and systematically adding to it, you come up with $3,299,342. Your $120 will in effect turn into $331,536 in seventy years.

[illegible]

THE MAGIC OF COMPOUND INTEREST

Problem *[illegible] don't amount to much money*

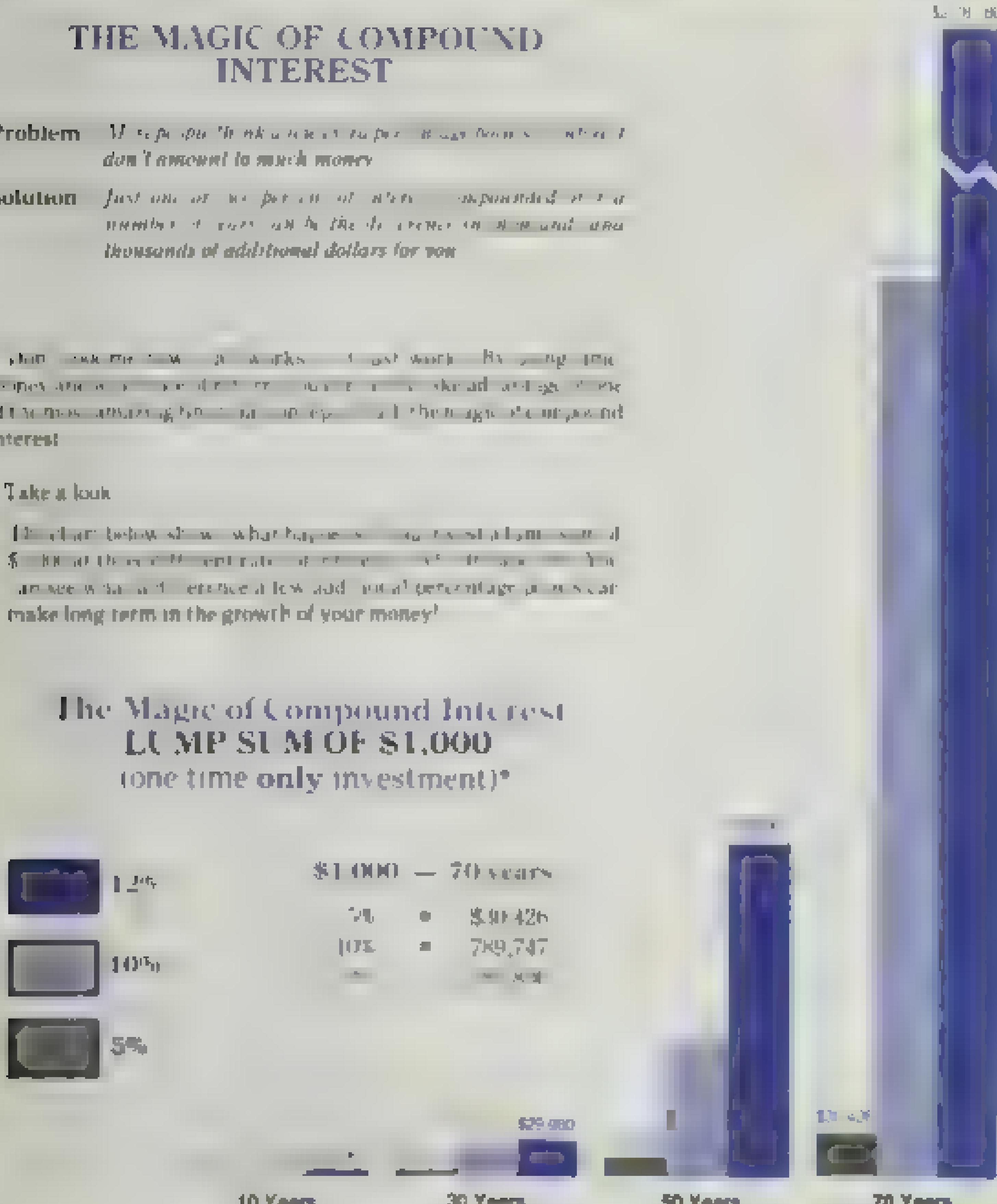
Solution *Just one or two percent of [illegible] compounded [illegible] thousands of additional dollars for you*

[illegible] interest

Take a look

[illegible] make long term in the growth of your money!

The Magic of Compound Interest
LUMP SUM OF $1,000
(one time **only** investment)*

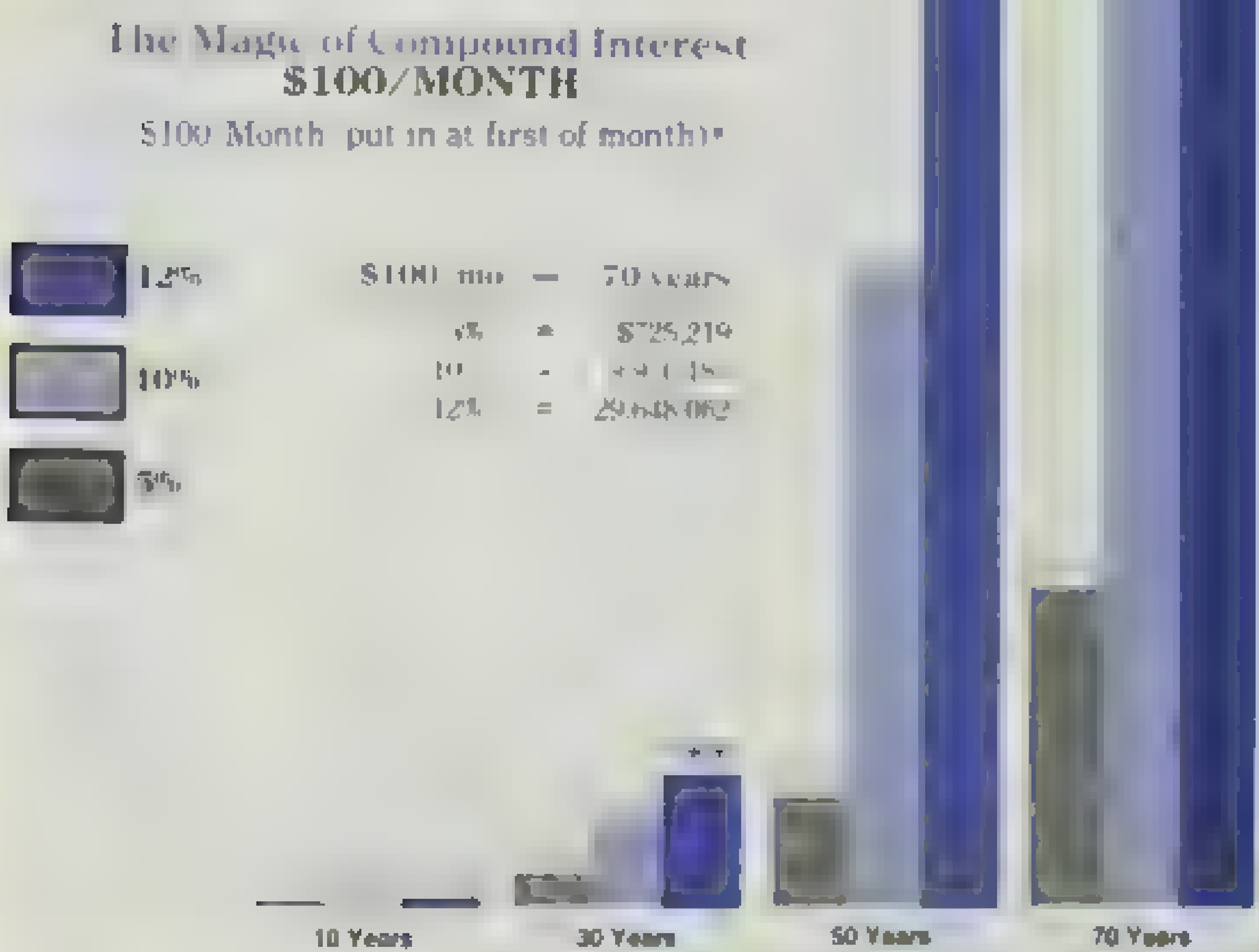


[illegible]

[illegible] magic. The chart at right [illegible] percentage points of interest [illegible] earning 10% [illegible]

[illegible] way with monthly investments.

[illegible] age points of interest can be.



[illegible]

RULE OF "72"

Another important concept [illegible] compound interest is the **Rule of "72"** [illegible] double at an exact point by **dividing 72 by the % of interest**

72 ÷ [illegible] interest [illegible]

72 ÷ [illegible] interest [illegible]

72 ÷ [illegible] interest = 12 years

72 ÷ [illegible] interest = [illegible] years

72 ÷ 12[illegible] = [illegible] years

72 ÷ [illegible] interest [illegible]

Let's invest only $5.00 each month and see how important [illegible] for **you to get a little bit higher** [illegible] investment. The following graph [illegible] what **[illegible]% more interest** will do [illegible]**

$5/month
compounded annually

Interest Rates

Years	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	699	[illegible]	955	[illegible]	1,315
20	[illegible]	1,638	[illegible]	3,217	[illegible]	6,635
30	[illegible]	2,90[illegible]	[illegible]	8,572	15,404	28,159
40	[illegible]	4,[illegible]97	[illegible]	2[illegible],[illegible]48	[illegible]	115,233
50	[illegible]	6,8[illegible]7	[illegible]	5[illegible],258	[illegible]	467,498
60	[illegible]	9,941	[illegible]	122,101	[illegible]	1,892,606
70	[illegible]	14,050	[illegible]	290,487	[illegible]	7,657,983

The "Magic of Compound Interest" is [illegible]

* If you had invested $1,000 and received [illegible] interest it would have grown to $2,[illegible] in exactly [illegible] years
** [illegible]
part of your [illegible]

IT DOESN'T TAKE MUCH

[illegible] way.

NO. 1 — If you invest the money used to purchase your afternoon soft drink

NO. 2 — If you quit smoking cigarettes

NO. 3 — If you save $1 a day:

$1 a day (@ 5 days a week) = $20 [illegible] month

Years	[illegible]	[illegible]
1	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]

You see, it doesn't take a lot of money to begin [illegible] the magic of compound interest [illegible] is amazing!

CONSISTENCY MAKES THE DIFFERENCE

Problem: *Most people don't plan to fail, they fail to plan.*

Solution: [illegible]

Invest on a Regular Monthly Basis

To develop a successful savings and investment program, you must decide what you want to accomplish financially. Then decide how you want to do it.

Above all, save regularly.

1. ESTABLISH A GOAL
2. DECIDE UPON A PLAN

Sit down with your spouse and other family members and define what you want to achieve. What are your goals? A home, college education for your children? Goals are a personal thing and everyone has different goals and priorities. The important thing is to have

your own family's goals clearly set out so that you'll have a clear view of what you're working for.

One warning: Don't forget retirement. I know it seems like a lifetime away; plus it doesn't seem as exciting a goal to work toward as a new house or travel plans. But the adage "time flys" is true, and retirement time will come around whether you plan for it or not. Be smart. Retirement planning should be one of everybody's goals.

After you've set your goals, decide upon a plan to achieve them. Determine how much you can afford to save and whether you will do it weekly, monthly or whatever. Refer back to the chart of page 14 to see how your money will grow over a period of time. Do what suits you best — but do it **regularly**.

ESTABLISH AN EMERGENCY FUND

PRINCIPLE #4

Problem *[illegible] terminate their plan prematurely*

Solution *[illegible] three months' income set aside in an emergency fund*

An emergency [illegible] expense

Save three months' income

STEP #1 SAVE THREE MONTHS INCOME FOR EMERGENCIES

[illegible]

STEP #2 REMEMBER THE MEANING OF EMERGENCY

[illegible] emergency fund

[illegible] budget [illegible]

Emergency Funds "Dangerously Low"*

A recent study by Purdue University concluded that in 1981 77% of all families had less than two months of gross household income in checking and savings.

[illegible] long term investment instrument

If money is very tight some people use part-time jobs as [illegible] unexpected expense

[illegible] MONEY

[illegible] won't work for your emergency fund

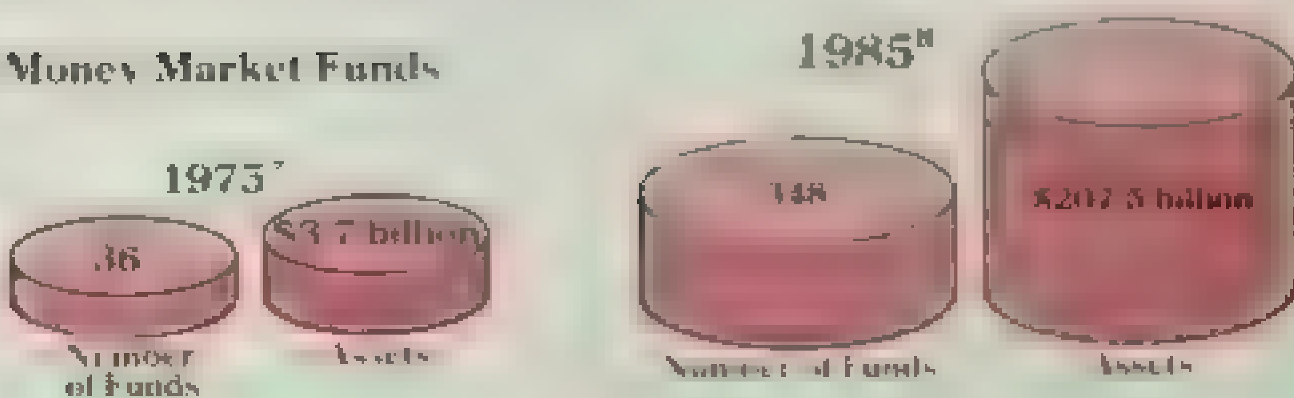
Consider Money Market Funds

[illegible]

[illegible] privilege should be used only when necessary.

[illegible]

Growth of Money Market Funds



Today, money market accounts are offered by many savings and loan associations, banks and brokerage firms. Some are even insured by the FDIC and FSLIC, agencies of the federal government.

I recommend money market funds as the best short-term, high-return investment instruments that provide easy access to your money. However, savings plans at banks, savings and loans, and credit unions will work too. Just be sure to avoid the type of savings certificates that tie up your money for 1-2 years.

Another caution: don't confuse money market funds with mutual funds, a long-term investment vehicle that we'll talk about in Principle #8.

An emergency fund means protection.

Remember, the main purpose of an emergency fund is PROTECTION. Its purpose is to provide a cushion against unforeseen problems and disasters. [illegible] establishing and building your emergency fund. [illegible] able [illegible] your long-range financial plan [illegible] and the sooner you'll be able to see big results. And that's the name of the game.

Your emergency fund cannot cover major crises such as major medical problems, serious auto and home accidents, and fire. These catastrophes must be provided for in other ways, such as homeowners, health, and auto insurance.

PRINCIPLE #5 BUY THE RIGHT LIFE INSURANCE

Problem *[illegible]*

Solution. *Buy [illegible] term insurance [illegible] and invest the difference*

One of the most important expenditures the average family makes in its lifetime is the purchase of life insurance. It is also one of the most misunderstood. It is absolutely vital that you make the right decision about the kind and amount of insurance you buy.

What's Its Purpose?

Why life insurance?

First, you must understand the purpose of life insurance. It is protection against premature death. Life insurance does not insure life so much as it protects your dependents from the loss of financial support. Because you will eventually acquire through savings and investments a substantial amount of money to provide this protection.

What Are You Paying For?

Second, you must understand what you are paying to protect. Most people earn from $400,000 to $800,000 during their lifetime. (Example: an average of $10,000 per year × 40 years = $400,000.) It is the loss of that earning power that makes life insurance a necessity. Life insurance is a substitute for the cash and other wealth that your family would accumulate if the breadwinner were living.

What Should You Buy?

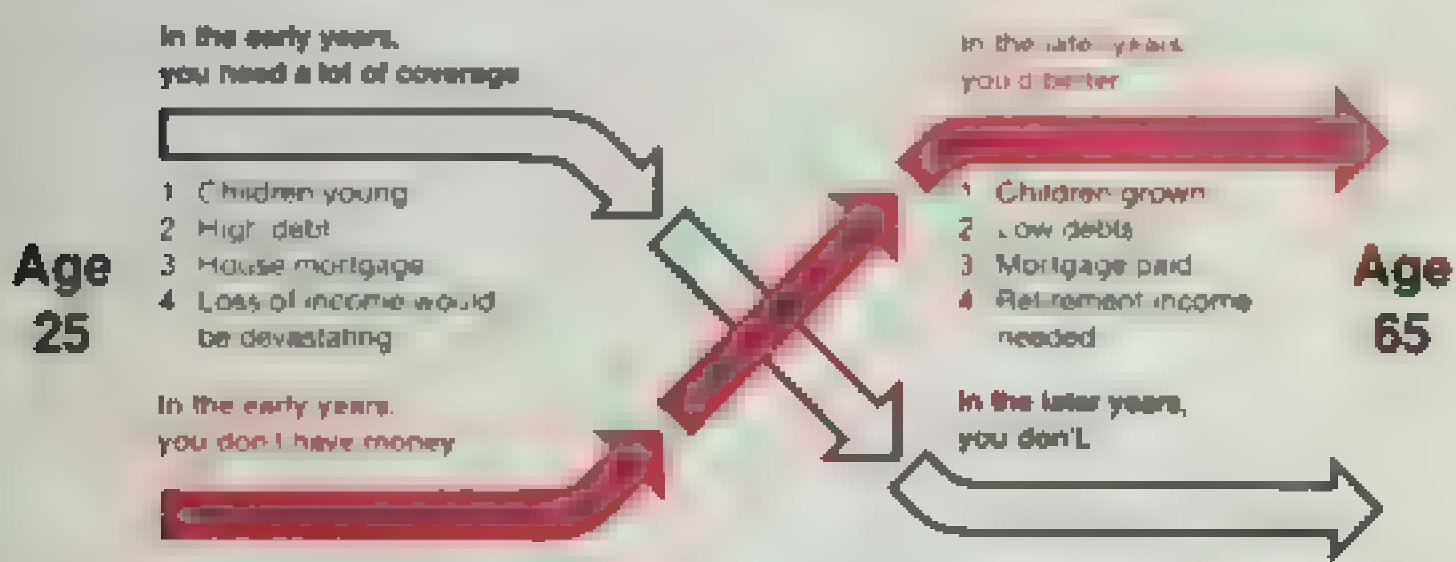
Third, you must understand what kind you should buy. I recommend inexpensive term life insurance only.

The most common misconception about life insurance is that it is a permanent need that each family has. This is totally untrue. Life insurance is a way to buy time until you get your personal financial estate in order. You need more coverage when you're young, less when you're older.

The basic concept behind my beliefs about term insurance protection is a simple theory with a long name — the Theory of Decreasing Responsibility. It simply means that your need for insurance is greater when your responsibilities are greatest — when your children are young, you have a mortgage payment, and so forth. As you grow older, your responsibilities decrease: children are grown and on their own, the payments are reduced, your home is paid for. This is the time that you need very little death protection in the form of insurance, and should rely instead on accumulated cash for your retirement years.

The Theory of Decreasing Responsibility illustrates the wisdom of term insurance as a wise insurance choice. You buy low-cost, high coverage term in your early years and invest the difference between the cost of term and whole life insurance in a promising investment program. As you grow older, your insurance coverage decreases and your accumulated savings begin to increase.

The Theory of Decreasing Responsibility



Remember Your Goal

Your ultimate goal is to become self-insured by age 65 or sooner. Life insurance protects your family from the loss of your income and financial security. Term insurance is the product that best fits that temporary need.

THE THREE "NEVERS" OF BUYING LIFE INSURANCE

There are three basic mistakes that I see most people make when considering life insurance. In my years of counseling people about financial strategy, I've developed what I call my "three NEVERS" for life insurance buyers.

"I think it's a rip-off to sell [illegible] life insurance. The insurance industry [illegible] cash value life insurance to get more of your premium [illegible] to invest for them[illegible]"

NEVER #1 [illegible] WHOLE LIFE INSURANCE, INCLUDING UNIVERSAL LIFE

NEVER #2 [illegible] INVESTMENT

NEVER #3 [illegible] PAYS DIVIDENDS

"NEVER" #1:

Never Buy Any Kind of "Cash Value" or Whole Life Insurance Including Universal Life

I believe that the main reason for buying life insurance is to protect your family against the death of the breadwinner. This "death benefit" is the most important part of your policy. Some policies have other features including cash value benefits, loan rights, withdrawal options or surrender options if you give up some or all of the death benefit. But if you die, **no matter how much you pay**, your life insurance only pays the death benefit.

The tables on the following page will help you compare the cost of coverage for different kinds of insurance offered by several companies. (I am assuming in these charts that the coverage ends with death in [illegible] years. I am not considering the special features just mentioned, which happen [illegible] [illegible] death protection coverage. Generally, the premium of a whole life policy remains level during the term of the policy, whereas the premium of a term policy may increase with age.)

When you pay the premium for 20-year level term, annual renewable term, and 5-year renewable and convertible term policies, you pay for death protection **only**. The other policies contain benefits like cash value in addition to death protection. The cash value increases through the years and may be borrowed against or used to pay premiums on the policy. **But** you pay extra for these benefits.

". . . term insurance is the wave of the future, and the nation's consumers will be the real beneficiaries."

[illegible]

That is why [illegible] and other [illegible] term insurance. The [illegible] value of money.

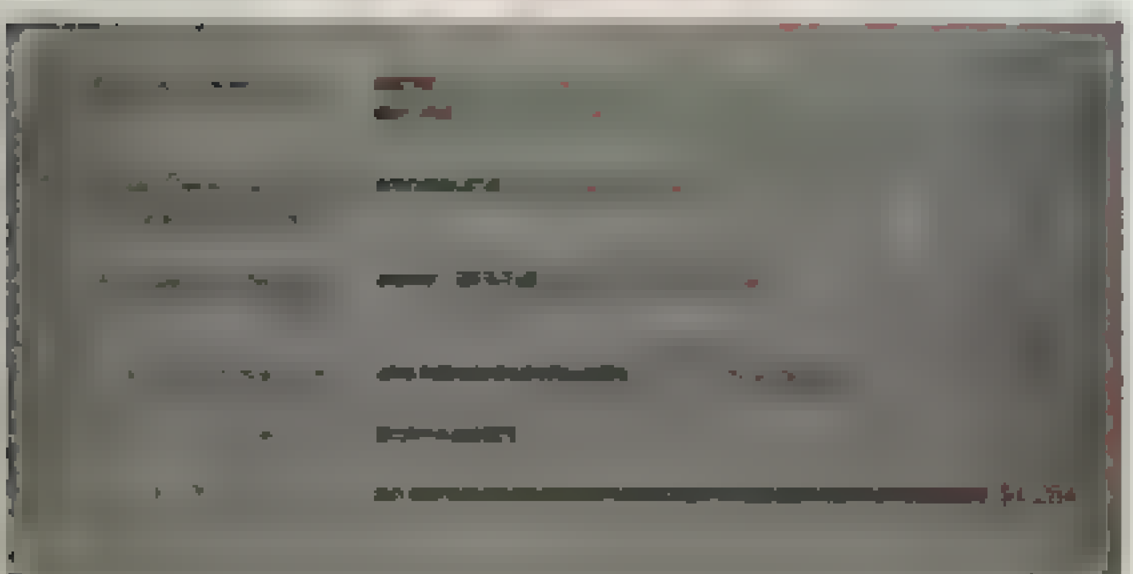
"The verdict of consumerism is likely to make cash value life [illegible] sharply confine and regulate it."

[illegible]

20-Year Premiums For Life Insurance Male, Age 35; Death Benefit — $250,000

[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]

The 20-Year Average Annual Premium Male, Age 35 Death Benefit — $250,000

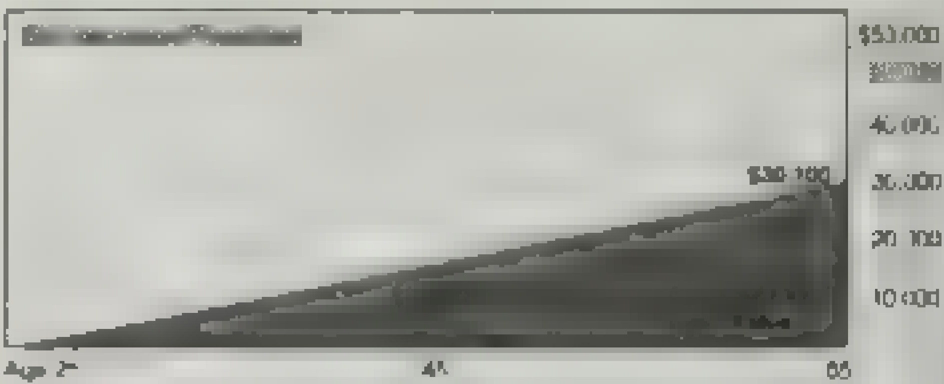


Look at the choices...

CHOICE #1 — Cash Surrender Value Life Insurance
"The Bunding Concept"

B[illegible]nding is the MAJOR FLAW of [illegible] With [illegible] you are required [illegible] death benefit [illegible] you get [illegible] you die only $[illegible] and less than adequate [illegible]

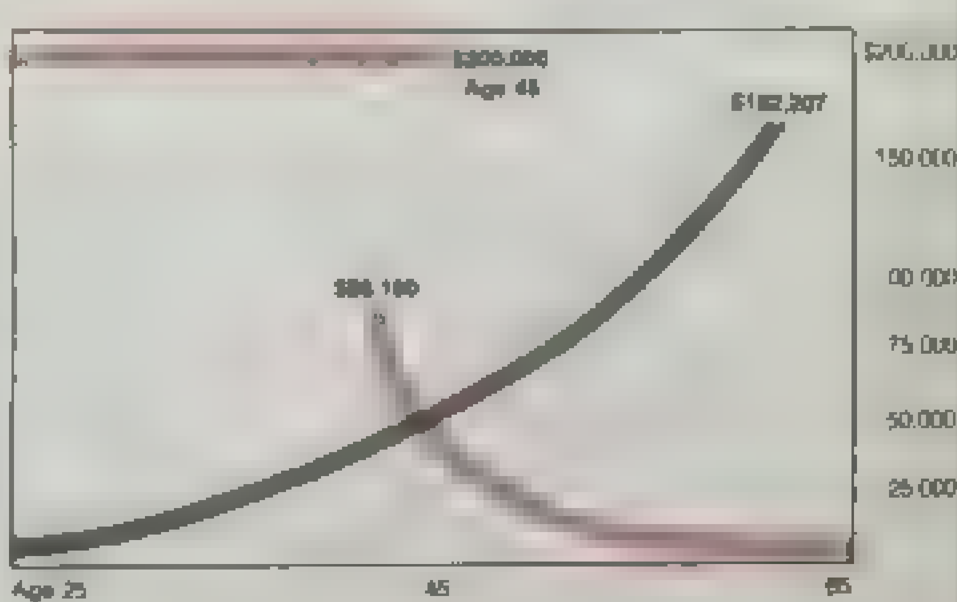
Age		($600 Outlay)
25	Protection	$53,[illegible]
65	[illegible]	$[illegible]
	Accumulation in [illegible] value	$3[illegible]



CHOICE #2 — Buy Term and Invest the Difference
"A Better Way"

For the same $600 you bu[illegible] times more!) AND, you can invest the [illegible] You control both and you get both — prote[illegible] retirement that you'd get by "bund[illegible]

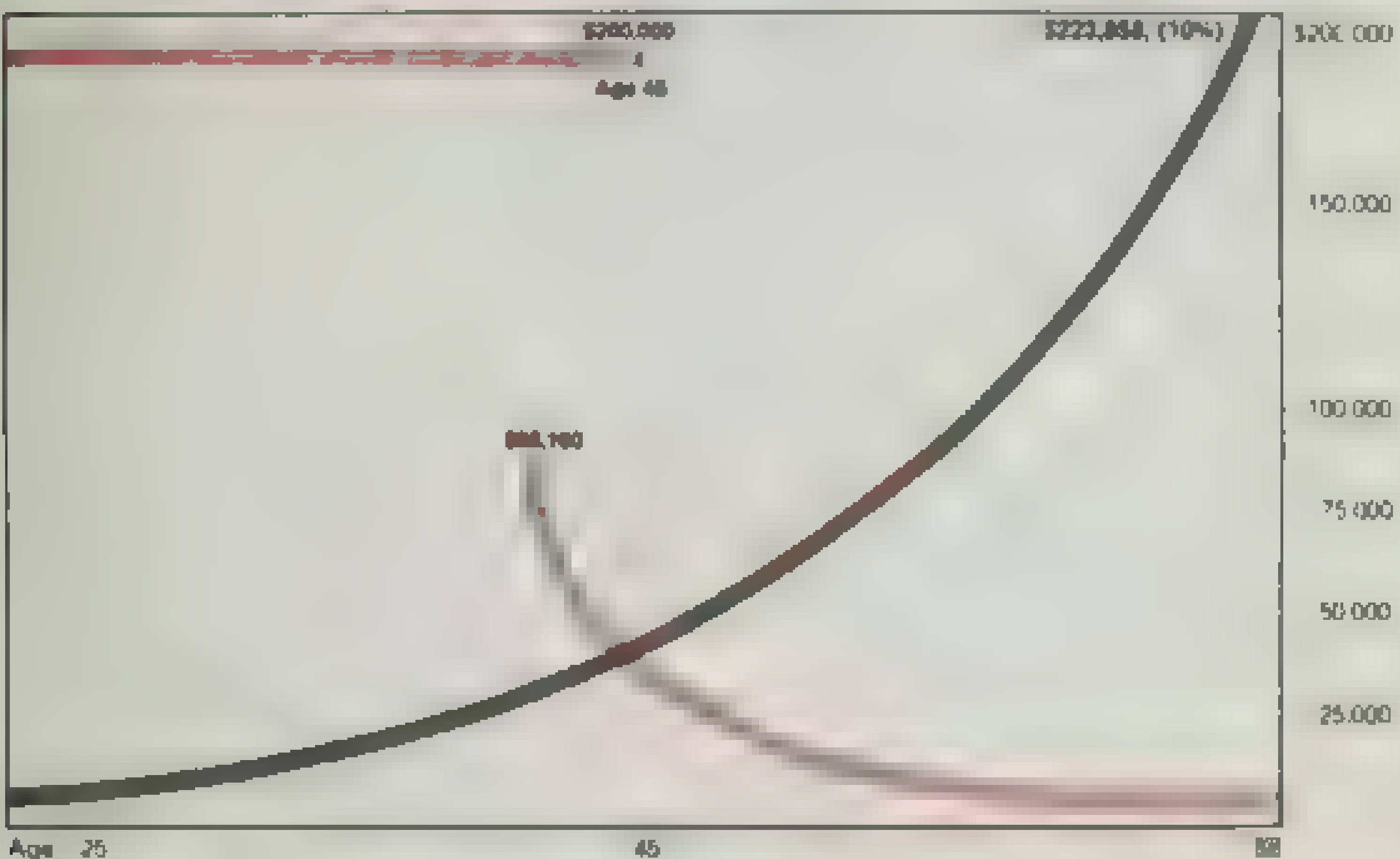
Age		Choice #1 ($600 Outlay)	Choice #2 ($600 Outlay)
25	Protection	$5[illegible]	$20[illegible]
	Protection	$5[illegible]	$1[illegible]
65	Accum	$30,[illegible]	$1[illegible]



THE BEST CONCEPT AVAILABLE TODAY

CHOICE #3 — Buy Term and Invest the Difference in an IRA
"The Best Concept Available Today

Enactment of the IRA by Congress was the FINAL NAIL IN THE COFFIN [illegible] compete with the benefits of an IRA. BUT [illegible] QUALIFIES as an IRA [illegible] cash value policy offers the tax advantages of "buy term and invest the difference in an IRA." [illegible] WITHOUT A DOUBT the best concept available in America today.



Age		Choice #1 ($800 Outlay)	Choice #3 ($800 Outlay)
25	Protection	[illegible]	$200,000
65	Protection	[illegible]	[illegible]
	Accumulation	[illegible]	$223,858 [illegible]

NOTE on Choice #1: **Outlay** refers to annual premium. **Protection** refers to face amount of the life insurance policy. **Accumulation** refers to cash value of the life insurance policy.

Figures used are based on the average whole life premium rates and cash surrender values [illegible] of the largest stock life insurance companies' guaranteed [illegible] in the United States.

Universal Life, Variable Life, Adjustable Life, etc. are all superior forms of Cash Value Life Insurance. But that's not much to brag about. No form of Cash Value Life Insurance can compare with "Buy Term and Invest the Difference in an IRA" — the best concept available to meet the needs of American families today!

"NEVER" #2
Never Buy Life Insurance as an Investment

"M[illegible] who have [illegible] their retirement savings [illegible] will find that the 2[illegible] percent **20-year return on their cash value insurance policies will have been almost completely eroded by inflation."**

— FTC Staff Report [illegible]

Life insurance should NEVER be bought as an investment, savings or tax shelter. There are plenty of sound and potentially rewarding long range investment opportunities in the marketplace today. Your investment dollars should be focused toward one of those vehicles. Your insurance policy is designed to serve a totally different need.

There are many good reasons NOT to buy life insurance as an investment, but here are a few of the most important.

1. Historically, returns have been low

The Federal Trade Commission Staff Report [illegible] 1979 [illegible] *The average rate [illegible]* [illegible] **of 1.3 percent.**

[illegible] *losing billions of dollars a year."*[19]

The bottom line is this: even though the rate of return on policies issued since [illegible] in 19[illegible] may be somewhat different, none of us can afford to lose money. In the last 1[illegible] years, the rate of inflation has made getting a good return on your money a necessity. Most people need every cent they can get just to make ends meet. **They can't afford to make a poor investment.**

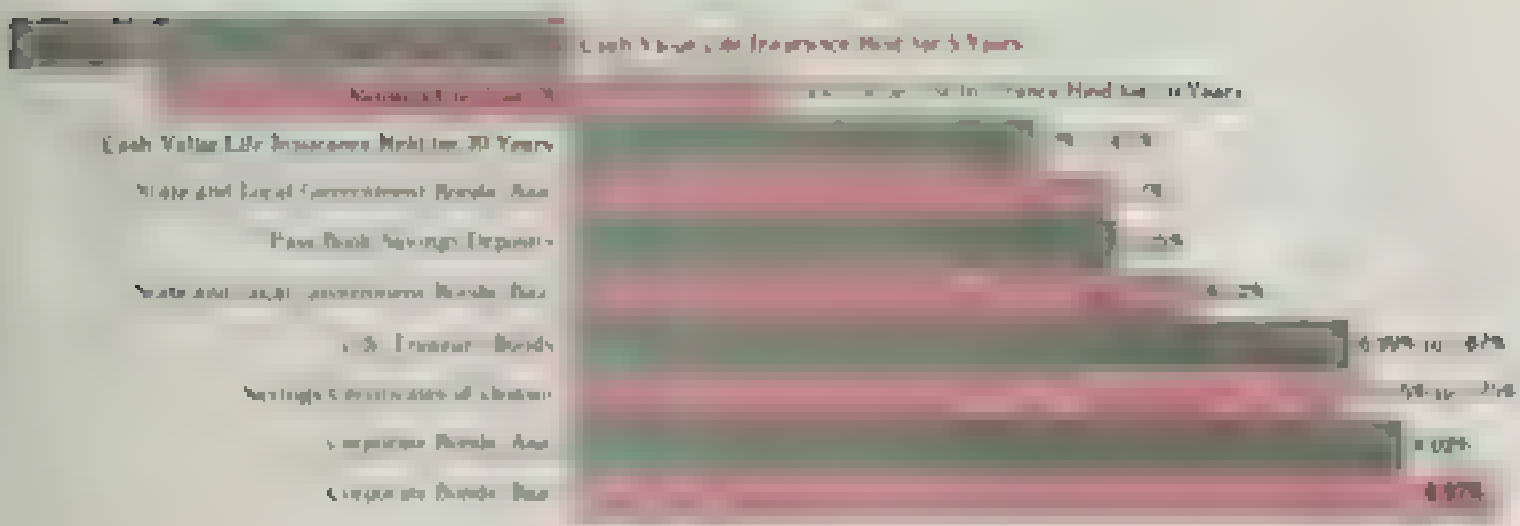
"I believe the purchase of pure term insurance and the practice of investing the difference in an IRA is the only way to go for future financial security."

— A[illegible] M[illegible] [illegible] About Life Insurance, 19[illegible]

The chart on the next page shows the percent of return you would have received [illegible] different types of [illegible] in 19[illegible] as computed by the FTC staff. Note [illegible] cash value insurance **held for only five years** had a return of MINUS [illegible] MINUS [illegible]. You had to have held a cash value policy [illegible] years to reach a positive return rate. Some investment!

COMPARATIVE RATES OF RETURN IN INVESTMENT INSTRUMENTS

% RETURN



2. Returns on new forms of cash value insurance are unreliable.

Look what one actuary interviewed by WSJ had to say:

anything like that."

And, a professor of insurance:

"The gross rate ... is a sales gimmick.

The chart below shows the extent to which leading sellers of Universal Life policies are actually living up to their promised rates.

Universal Life Policies

Company	Quoted Interest Rate on Accumulation	Rate of Return* 5 Years	10 Years	20 Years
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Metropolitan Life [illegible]	9.50	0.29	5.73	8.19
State Mutual [illegible]	8.75	2.70	6.93	8.20
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

For a 40 year old man, nonsmoker, $250,000 death benefit and $2,500 annual premium.

[illegible]

What else is there to say? UL is nothing more than a fancier version of the old whole life (cash value) policy. It's still "bundled," and it's still no way to save money.

[illegible]

Consumer Reports, August [illegible]

3. No cash value product can compete with "buy term and invest the difference in an IRA."

In chapter 6, I'll talk more about the Individual Retirement Plan (IRA), but here I'll simply say that in my opinion the IRA is unbeatable as an investment instrument. There's no doubt in my mind that the IRA is the best investment vehicle available today for Middle Americans, people like you and me, and that no one should invest in **anything** until they've taken advantage of the IRA.

The chart below shows the difference in cash buildup in several different kinds of insurance policies, including Universal Life, and the cash buildup in an IRA. (Cash values do not qualify as an IRA.) Do I need to say more?

REMEMBER: You start with an annual pre-tax outlay of $2,000. Then you have two choices:

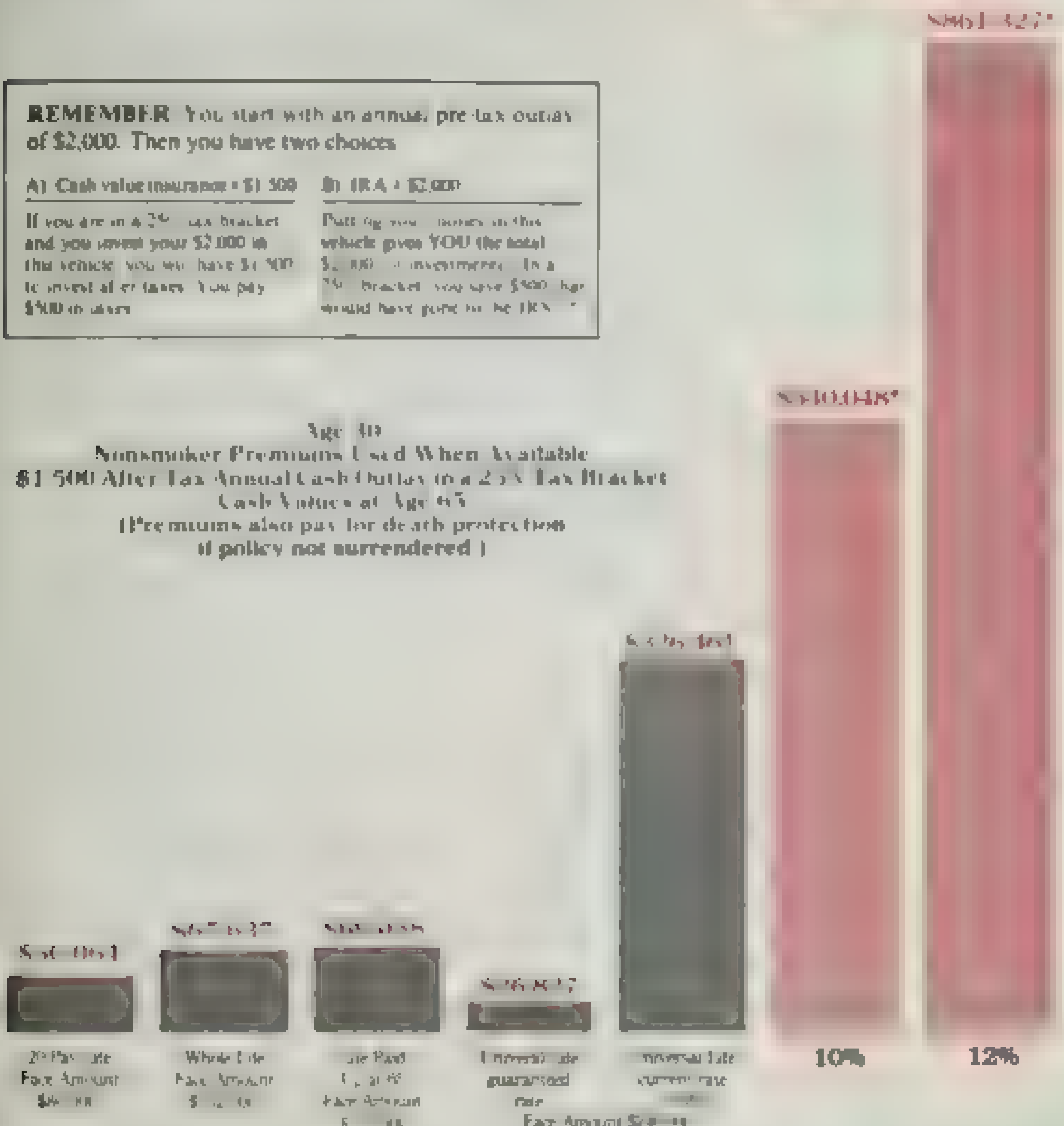
A) Cash value insurance = $1,500

If you are in a 25% tax bracket and you invest your $2,000 in this vehicle, you will have $1,500 to invest after taxes. You pay $500 in taxes.

B) IRA = $2,000

Putting your money in this vehicle gives YOU the total $2,000 for investment. In a 25% bracket, you save $500 that would have gone to the IRS.

Age 40
Nonsmoker Premiums Used When Available
$1,500 After-Tax Annual Cash Outlay in a 25% Tax Bracket
Cash Values at Age 65
(Premiums also pay for death protection if policy not surrendered.)



4 If you die, you cannot collect your cash values.

Many people [illegible] cash values [illegible] not the cash [illegible].

For example [illegible] you buy a policy with a face amount [illegible] and accumulate cash values of [illegible], your family gets the $200,000 if you die — but they DON'T get the $50,000.

> "No other product in our economy that is purchased by so many people for so much money is bought with so little understanding of its actual or comparative value."
>
> [illegible]

$200,000 — Face amount
+ $50,000 — [illegible] ONLY [illegible]
Death benefit

What kind of [illegible]? Any [illegible] consumer [illegible] cash back if I die?"

You know what? In my opinion, the [illegible] answer is, "I wouldn't!"

5 You must pay to borrow your cash values

One of the main selling points of cash accumulation policies is that the policyholder can borrow against these values. What the consumer isn't always told is that **you must pay interest to borrow this money!** Granted, it may be, in some cases, a lower amount than you would pay at a bank [illegible].

And if you should die before you [illegible] back this loan [illegible] the amount you borrow is DEDUCTED from the [illegible] benefit your family receives.

For example:

$50,000 face amount
- $10,000 Loan
$40,000 Death benefit

This makes [illegible] sense to me [illegible]. Why pay to borrow money you've paid [illegible] when there is a better way?

"NEVER" #3:
Never Buy a Life Insurance Policy That Pays Dividends.

In my opinion, buying a life insurance policy that [illegible] is a poor use of your insurance dollars. Historically, [illegible] that pay dividends have had higher premium rates than [illegible]

Consider what the insurance companies themselves argued in the U.S. Treasury Decision Number 1743.[14]

> "Dividends [illegible] are not dividends [illegible] but are simply refunds to the policyholder of a portion of the overcharge collect[illegible]

"Most people, we concluded would come off better buying term insurance instead of whole [illegible] insurance."

— Consumer Reports, February [illegible]

The chart below [illegible] the annual [illegible] whole life policies [illegible] the same company [illegible] dividends [illegible] other does not. The difference in premium [illegible] the additional cost [illegible] dividend privilege.

Comparative Annual Whole Life Premiums[15]
(Cost per $1000, excluding policy fee)

[illegible] Paid up at 90' policies sold by the same company

At Age	Whole Life [illegible]	[illegible]	[illegible]	[illegible]
20	$14.96	$10.48	$4.48	43%
[illegible]	[illegible]	[illegible]	[illegible]	37%
30	19.53	14.75	4.78	32%
35	22.83	17.74	5.09	29%
40	27.14	21.60	5.54	26%
45	32.76	26.54	6.22	23%
[illegible]	[illegible]	[illegible]	[illegible]	22%
55	49.96	40.80	9.16	22%

Remember
[illegible]
Don't be fooled by a promise of "high dividends!"

RULES FOR BUYING LIFE INSURANCE

Shop for the best insurance buy

1. BUY ONLY LOW COST TERM INSURANCE

The level term insurance is right for average consumers. Average [illegible] for your period of insurance [illegible] 15 or 20 years [illegible] make sure you are getting a good buy [illegible] many [illegible] jumped on the bandwagon recently offering cheap term for [illegible] Then costs then skyrocket.

2. BUY ADEQUATE COVERAGE

B[illegible] insurance coverage [illegible] your family. A [illegible] the bread winner [illegible] the breadwinner [illegible] each child [illegible] income by eight [illegible] give a ballpark figure for minimum coverage needed.

For example: [illegible] quals [illegible] on the breadwinner for adequate protection for the family. $[illegible] of life insurance would give survivors an annual income of $[illegible] per year for 20 years, assuming that the insurance proceeds earn [illegible] with annual compounding and that income is payable in [illegible]

3. IF YOU HAVE A SPOUSE, YOU NEED TO BUY INSURANCE ON THE SPOUSE ALSO, BUT NOT AS A SEPARATE POLICY.

A policy [illegible] against the death of your spouse can be bought very inexpensively as a rider on your policy.

Example

	Amount	First Yr. Premium	Yrs. 1-20 Premium*
Age 30	25,000	20.50	39.25
	50,000	41.00	78.50
	[illegible]	[illegible]	[illegible]
	500,000	410.00	785.00

Never buy a separate policy for the spouse.

4. NEVER BUY A LIFE INSURANCE POLICY ON CHILDREN

I recommend [illegible] enough [illegible]

5. STAY AWAY FROM FANCY "OPTIONS"

[illegible]

Mortgage insurance [illegible]

6. HAVE ONLY ONE INSURANCE POLICY PER FAMILY

[illegible]

[illegible] With the [illegible] left over, you could buy about [illegible] term insurance at age [illegible] and pay a whole year's premium.

7. IF YOU CAN FIND A NEW INSURANCE POLICY THAT IS BETTER FOR YOU AND YOUR FAMILY, BUY IT

[illegible]

[illegible] with a newer one, consider these points

> ...the hard fact is that insurance should be bought for protection and investments should be made elsewhere . . . you should protect your loved ones by buying term insurance, which costs much less than whole life, universal life or any other version of so-called 'permanent' life insurance. You'll save a bundle in premium costs and be able to invest those savings as you like.
>
> [illegible]

WHY SHOULD YOU REPLACE OLD POLICIES?

[illegible]

WHEN NOT TO REPLACE YOUR OLD POLICIES?

[illegible]

HOW DO YOU REPLACE OLD POLICIES?

[illegible]

STEP 1 [illegible] parison [illegible] RECOMMENDED [illegible]

STEP 2 [illegible]

STEP 3 [illegible]

STEP 4 [illegible] ONLY [illegible]

[illegible] return on your insurance [illegible] consider [illegible] present [illegible]

[illegible] insurance company that can serve your family's needs.

WHICH LIFE INSURANCE COMPANY SHOULD YOU USE

A [illegible] regardless [illegible] consider these features:

a. Does the company offer guaranteed rates? [illegible] the premium rates [illegible] guaranteed. Make sure that [illegible] understand [illegible] premium [illegible] what your premium will be throughout the [illegible] of the [illegible] premium should not be subject to [illegible] increase at a future date.

b. [illegible] average the annual premium [illegible] years [illegible] average premium payment. Don't consider ONLY the first year rate. Some companies [illegible] low first year rate [illegible] increase [illegible] future years.

[illegible] the lowest [illegible] around. You'll be amazed at how much rates [illegible] between companies for the same coverage and protection.

d. Consider a company with [illegible]

PRINCIPLE #6 MINIMIZE TAXES WITH AN IRA

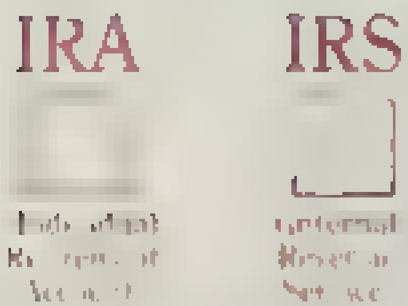
Problem [illegible] *from tax shelters*

Solution [illegible] *an IRA*

[illegible] overcome this problem.

Every wage earner has a tax problem.

[illegible] tax legislation made it possible for everyone who earns money and is younger than 70½ years old to contribute to an Individual Retirement Account. I believe that everyone who pays taxes should earmark the first $2000 of their long range investment plan each year for an Individual Retirement Account.



Choose One of the Above

The IRA then gives you two distinct advantages:

Short term - [illegible] income at tax time thus decreasing taxable income* and possibly tax rate as well, and

Long term - You defer tax on the contributions to the IRA until you begin withdrawing funds during retirement.

[illegible] an IRA investment versus a non-IRA investment.

IRA
[illegible]
Living Expenses

Non-IRA
[illegible]

You save $[illegible] in taxes IMMEDIATELY by starting an IRA.

*[illegible]

However the advantages don[illegible] stop here. [illegible] Retirement Account

dollars.* example #1 shows a total [illegible] being invested [illegible] assuming an interest rate of [illegible] periods of time. As shown [illegible] years could accumulate $1 718,285

IRA Investment**

Deposit = $2,000/ year

Interest Rate = 12% (annual)

Values/end of year

10 =	$39,309
20 =	161 397
30 =	540 585
40 =	1 718,285

Examples #2-5

[illegible] —amazing!!!

Non IRA Investments (based on 12% yield)

Personal Tax Bracket	25%	[illegible]	40%	50%
After-tax Annual Deposit	$1 500	$[illegible]400	$1 200	$1 000
After-tax Rate	9%	8.4%	[illegible]2%	6%
Accrued Values End of Year 10	$ 24 840	$ 22 [illegible]	$ [illegible]7 942	$ 13 9[illegible]
Year 20	$ 83 646	$ 72 933	$ 53 902	$ 38 992
Year 30	$222 862	$185 066	$ [illegible]25 975	$ 83 801
Year 40	$552 437	$436 9[illegible]	$2[illegible]0 426	$164 [illegible]

[illegible]

**These values are subject to applicable taxes upon distribution

*Pending tax legislation may change or reduce deductions for certain individuals

THE MAGIC OF COMPOUND INTEREST AND AN IRA

The "Time Value" of Money

Individual A

[illegible] $2,000 a year for six years, then stops.

Individual B

Spends $2,000 a year on himself for six years, then opens IRA at 12%. Invests $2,000 a year for the next 37 years.

Look at age 65 — Individual A, who only deposited $12,000, has accumulated nearly as much money as Individual B who deposited $74,000.

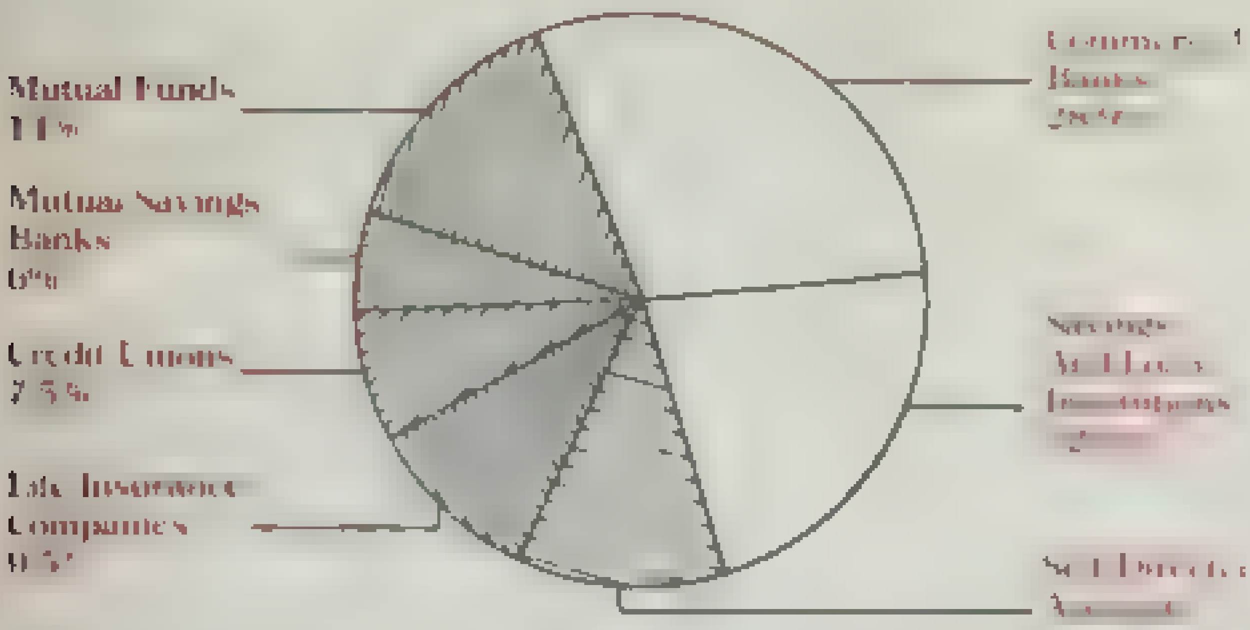
	Example A		Example B	
Age	Payment	Accumulation End of Year	Payment	Accumulation End of Year
22	$2,000	[illegible]		0
23	2,000	4,748	0	0
24	[illegible]	[illegible]	[illegible]	[illegible]
25	[illegible]	[illegible]	[illegible]	[illegible]
26	[illegible]	[illegible]	[illegible]	[illegible]
27	[illegible]	[illegible]	[illegible]	[illegible]
28	[illegible]	[illegible]	[illegible]	[illegible]
29	0	[illegible]	[illegible]	[illegible]
30	0	[illegible]	[illegible]	[illegible]
31	[illegible]	[illegible]	[illegible]	[illegible]
32	[illegible]	[illegible]	[illegible]	[illegible]
33	[illegible]	[illegible]	[illegible]	[illegible]
34	0	[illegible]	[illegible]	[illegible]
35	0	[illegible]	[illegible]	[illegible]
36	0	[illegible]	[illegible]	[illegible]
37	0	[illegible]	[illegible]	[illegible]
38	[illegible]	[illegible]	[illegible]	[illegible]
39	[illegible]	[illegible]	[illegible]	[illegible]
40	[illegible]	[illegible]	[illegible]	[illegible]
41	0	[illegible]	[illegible]	[illegible]
42	0	[illegible]	[illegible]	[illegible]
43	0	[illegible]	[illegible]	[illegible]
44	0	[illegible]	[illegible]	[illegible]
45	0	[illegible]	[illegible]	[illegible]
46	0	[illegible]	[illegible]	[illegible]
47	0	[illegible]	[illegible]	[illegible]
48	0	[illegible]	[illegible]	[illegible]
49	0	[illegible]	[illegible]	[illegible]
50	0	[illegible]	[illegible]	[illegible]
51	0	[illegible]	[illegible]	[illegible]
52	0	[illegible]	[illegible]	[illegible]
53	0	[illegible]	[illegible]	[illegible]
54	0	[illegible]	[illegible]	[illegible]
55	0	[illegible]	[illegible]	[illegible]
56	0	[illegible]	[illegible]	[illegible]
57	0	[illegible]	[illegible]	[illegible]
58	0	[illegible]	[illegible]	[illegible]
59	0	[illegible]	[illegible]	[illegible]
60	0	[illegible]	[illegible]	[illegible]
61	0	[illegible]	[illegible]	[illegible]
62	0	[illegible]	[illegible]	[illegible]
63	0	[illegible]	[illegible]	[illegible]
64	0	[illegible]	[illegible]	[illegible]
65	0	[illegible]		[illegible]

Statistics show that today more Americans [illegible] taking advantage of IRA [illegible] — FANTASTIC!*

Let's see where all that IRA money is located.

*Investment Company Institute, [illegible]

THE IRA "PIE"



Source: Investment Company Institute [illegible]

[illegible] aware of their choices. [illegible] WARNING: These IRA choices are hazardous to your WEALTH! [illegible]

[illegible] basket.

[illegible] Middle America — A Mutual Fund.

> "WARNING: THESE IRA CHOICES ARE HAZARDOUS TO YOUR WEALTH!"

HOW TO GET A "FAST START" ON YOUR IRA

	Example A		Example B	
Age	Contributions Made January 1st	Accumulation End of Year	Contributions Made April 15	Accumulation End of Year
30	2,000	[illegible]		0
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
32	2,000	7,500	2,000	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
34	[illegible]	[illegible]	[illegible]	[illegible]
35	2,000	[illegible]	2,000	[illegible]
36	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
38	[illegible]	[illegible]	[illegible]	[illegible]
39	[illegible]	[illegible]	[illegible]	[illegible]
40	[illegible]	[illegible]	[illegible]	[illegible]
41	2,000	[illegible]	2,000	[illegible]
42	[illegible]	[illegible]	[illegible]	[illegible]
43	[illegible]	[illegible]	[illegible]	[illegible]
44	[illegible]	[illegible]	[illegible]	[illegible]
45	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	2,000	[illegible]	2,000	[illegible]
47	2,000	[illegible]	2,000	[illegible]
[illegible]	2,000	[illegible]	2,000	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
51	2,000	[illegible]	2,000	[illegible]
52	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	2,000	[illegible]
54	[illegible]	[illegible]	[illegible]	[illegible]
55	[illegible]	[illegible]	[illegible]	[illegible]
56	[illegible]	[illegible]	[illegible]	[illegible]
57	[illegible]	[illegible]	[illegible]	[illegible]
58	[illegible]	[illegible]	[illegible]	[illegible]
59	[illegible]	[illegible]	[illegible]	[illegible]
60	[illegible]	[illegible]	2,000	[illegible]
61	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	2,000	[illegible]	2,000	[illegible]
[illegible]	2,000	[illegible]	2,000	[illegible]
64	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	2,000	[illegible]	2,000	[illegible]
66	0	[illegible]	2,000	[illegible]
Total IRA Contributions	72,000		72,000	
Total Accumulation on April 15 AGE 66		1,123,179		971,495
A Difference of	151,685			

Now you see why I strongly recommend the use of an Individual Retirement Account. **I firmly believe** that no one should ever invest in any after-tax program until he first has an emergency fund and then has maximized his Individual Retirement Account for each year.

Remember: don't invest in any after-tax program until you first have an Emergency Fund and then contribute the maximum amount allowed to your Individual Retirement Account each year.

Get a Fast Start — And Keep it Working

Individual A

Opens an IRA yielding 12% at age 30 on January 1st. He then makes each year's contribution as soon as he is eligible on January 1st each year.

Individual B

Knows he needs an IRA but **procrastinates**. In fact he waits 15 1/2 months later to make his first contribution. He then makes his IRA contribution every year on April 15th. Over their lifetime each person invests the same amount but look at the difference — **$151,685!!!**

Can you believe it?

In 1985 only 32% of those qualified contributed to an IRA. Don't be one of those who misses out on the IRA tax advantages this year.

BYPASS THE MIDDLEMAN

PRINCIPLE #7

Problem: *Most people loan their money to a middleman who invests the money and takes much of the profit.*

Solution: *Eliminate the middleman and invest your money the same as the middleman does, but gain the profit for yourself!*

Many people have failed financially because they didn't understand the basic concept of avoiding the middleman. Here's how it works. Suppose you invest money at your local bank in the form of a savings account. You deposit the money in the bank, and in return receive 5 1/2 - 6% interest.

Most people believe that this is a very "safe" investment. But here's what happens. After you invest your money in the bank, the bank in turn loans that money out or invests it directly into the American economy. The bank receives high rates of interest on its investment and is happy to pay you a low 5 1/2% for the use of your money.

Your Investment Dollars

BECOME AN OWNER, NOT A LOANER

As a general rule — stay clear of banks, savings and loans, credit unions and insurance companies when saving money is concerned.

You see, what you really have is a "loaning" account rather than a savings account. You are lending money to the bank and they are making a hefty profit off your money.

You have no choice but to reverse the situation if you want to make your money work for you. You must become an "owner," not a "loaner." You must learn to "Bypass the Middleman."

Guaranteed Loss?

Even though you may feel comfortable with the fact that investments in banks and savings and loans are "guaranteed" against loss by the FDIC, what you are purchasing with that kind of guarantee is something you hadn't bargained for... at no extra cost... A GUARANTEED LOSS!

Are you earning a guaranteed loss?

Think about it:

You earn interest for the year	$600
But you pay taxes on that interest (30%)	- 180
So your net earnings are	$420
But say inflation is 5%	- 500
LOOK AGAIN. You have "earned" a loss in purchasing power of $80	$ [illegible]

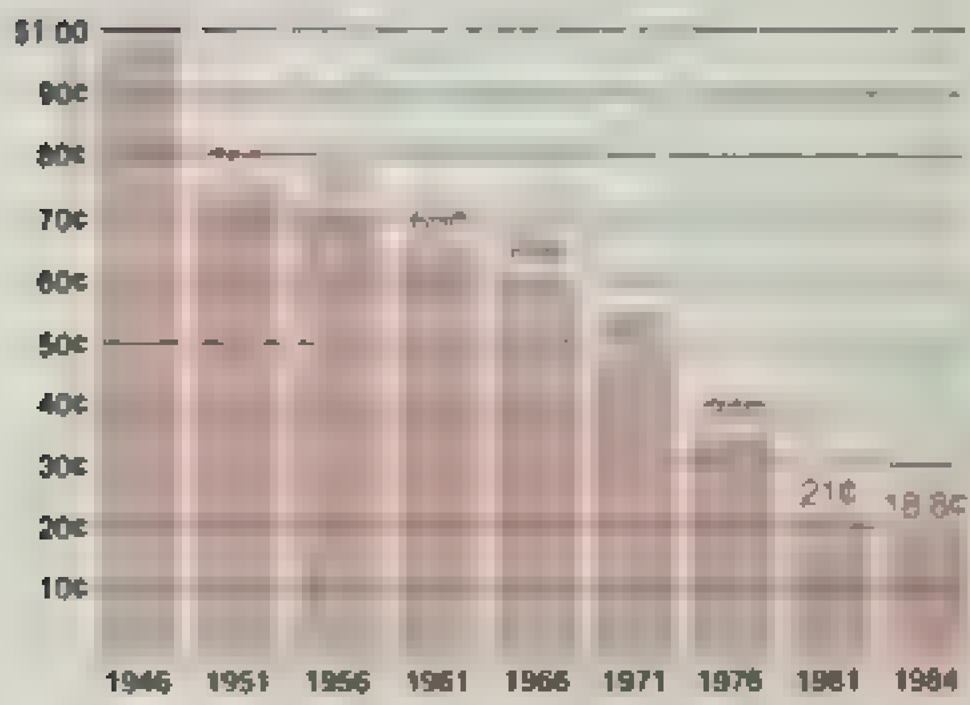
Wh[illegible] ending [illegible] is a loss of purchasing power because the interest rates you are receiving can't keep up with taxes and inflation.

The "Bite" of Inflation

We all feel the bite of inflation. It's another way that we lose the purchasing power of our [illegible] [illegible] has taken its toll.

The chart below shows the steady decline of the value of your dollar in recent decades.

The Decline of the Dollar*



*Source: U.S. Department of Labor

[illegible]

		Today	% Increase
Automobiles	$2,210 [illegible]	$ 9,663	337%
College education per year	$ 845 [illegible]	$ 3,156	[illegible]
New house	[illegible]	[illegible]	[illegible]

[illegible]

Home Mortgages

[illegible]

[illegible] They sure can [illegible] various times.

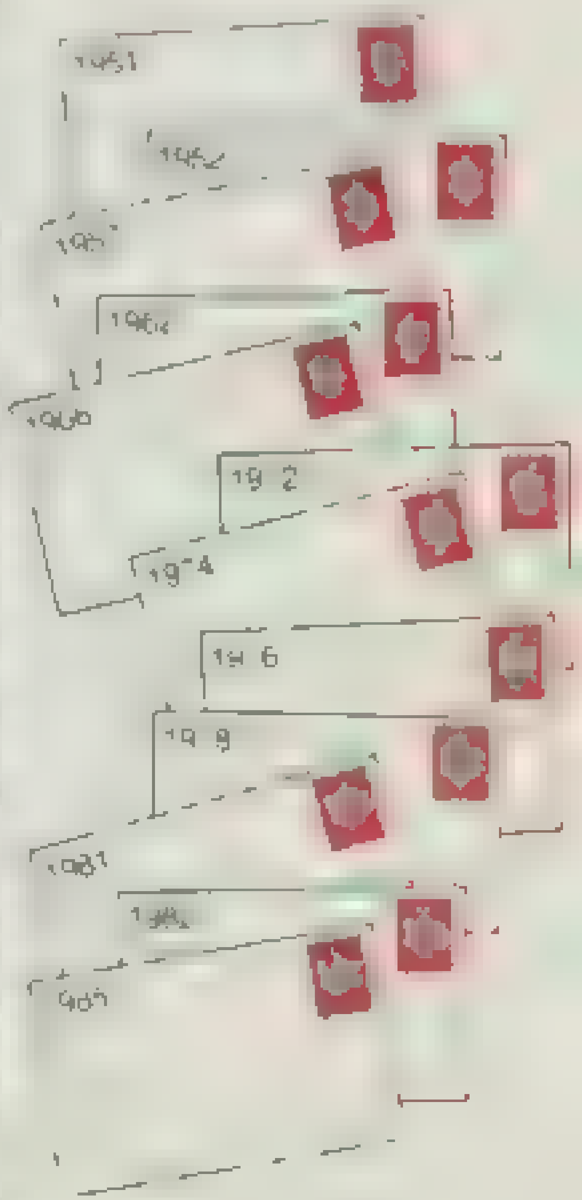
[illegible] It's a concept you should look into. You will like it — the banks will not."

[illegible] you can't afford a loss.

[illegible]

The declining power of the dollar means you pay more

Look at the rise of the penny postcard since 1951



PRINCIPLE #8

INVEST WITH PROFESSIONAL MANAGEMENT

Problem [illegible] to go it alone in this area

Solution [illegible] money management for average Americans

[illegible] here are some basic rules you must consider

[illegible]

Rule No. 1

[illegible] within a range of 4-10%.

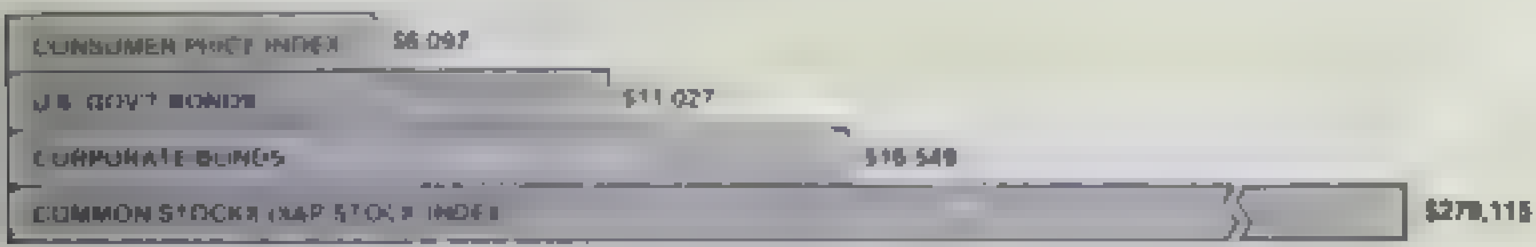
Rule No. 2

[illegible] as high as 12% or possibly even more. There are no guarantees. The element of risk is always [illegible] gains. [illegible] Of course they did not lose [illegible] If you want to maximize your return [illegible] you have to accept some risk. If you want to accumulate money, be an owner — not a loaner!

[illegible]

[illegible] Poor [illegible] 500 Composite Index have performed better than the [illegible]" investments shown during the period from 19[illegible] through [illegible]

INVESTMENT RESULTS
60 Years (1926-1985)
$1,000 Invested — Annual Compounding



[illegible]

TEST YOUR INVESTMENT IQ

[illegible] management.

[illegible] instructions as to how your investments must be made.

Rules of the game

1. [illegible] will do well in the future.
2. [illegible] used to say?) Pick at least three stocks.
3. [illegible]

WHICH THREE STOCKS WOULD YOU SELECT?

[illegible] results.

☐ A[illegible]ed Corp	[illegible]	☐ Hershey	$10,000
☐ Aluminum Company of America	[illegible]	☐ Navistar International**	10,000
☐ American Brands	[illegible]	☐ International Nickel	10,000
☐ American Can	[illegible]	☐ International Paper	10,000
☐ American Telephone & Telegraph	[illegible]	☐ International Telephone & Telegraph	[illegible]
☐ Bethlehem Steel	10,000	☐ Nabisco	10,000
☐ C[illegible] Corp	[illegible]	☐ Procter & Gamble	[illegible]
☐ Coca-Cola	10,000	☐ RCA	10,000
☐ Dart & Kraft	[illegible]	☐ Sears & Roebuck	[illegible]
☐ [illegible]pont	[illegible]	☐ Singer Manufacturing	[illegible]
☐ Eastman Kodak	[illegible]	☐ Standard Oil of California	[illegible]
☐ Esmark	10,000	☐ Texaco	10,000
☐ Exxon	10,000	☐ Union Carbide	10,000
☐ F[illegible]	[illegible]	☐ United Technologies	[illegible]
☐ General Electric	10,000	☐ U.S. Steel	10,000
☐ General Foods	[illegible]	☐ Westinghouse	[illegible]
☐ General Motors	[illegible]	☐ Woolworth	[illegible]
☐ Goodyear Tire & Rubber	[illegible]	** [illegible]	

HOW WELL DID YOU DO?

[illegible] the top performers?

INITIAL $10,000 INVESTMENT JANUARY 1, 1976

Stocks	Value of Investment Dec. 31, 1985		Stocks	Value of Investment Dec. 31, 1985	
Westinghouse	$68,032	+580.3%	Aluminum Company of America	19,743	[illegible]
Hershey	54,209	[illegible]	Esmark	19,419	94.2
Singer Manufacturing	44,472	344.7	International Telephone & Telegraph	16,701	[illegible]
General Foods	43,248	332.5	Dupont	16,098	[illegible]
Chrysler Corp	[illegible]	[illegible]	Proctor & Gamble	[illegible]	[illegible]
RCA	[illegible]	[illegible]	Goodyear Tire & Rubber	[illegible]	[illegible]
Woolworth	[illegible]	[illegible]	Texaco	12,565	25.7
American Brands	[illegible]	[illegible]	Sears & Roebuck	12,087	20.7
United Technologies	[illegible]	[illegible]	General Motors	12,047	20.5
General Electric	[illegible]	[illegible]	Union Carbide	11,624	16.2
American Telephone & Telegraph	[illegible]	[illegible]	Firestone	10,729	7.3
Dart & Kraft	[illegible]	[illegible]	International Paper	8,712	-12.9
Standard Oil of California	[illegible]	[illegible]	Eastman Kodak	7,148	-28.6
Exxon	[illegible]	[illegible]	U.S. Steel	6,049	-39.5
Nabisco	22,597	126.0	International Nickel	5,222	[illegible]
Allied Corp	[illegible]	[illegible]	Bethlehem Steel	4,664	[illegible]
American Can	[illegible]	[illegible]	Navistar International**	3,675	-63.3
Coca Cola	19,930	99.3			

**Formerly International Harvester

No transaction costs have been deducted, and no adjustment has been made to the figures for [illegible]

[illegible] pick one out of the top three stocks let alone all three!"

Picking the top stocks would have provided quite a tidy sum [illegible] On the other hand [illegible] would have grown to if you selected the bottom three performers — $13,561

If you picked the top three you'd have $166,713! But...if you picked the bottom three, you'd have $13,561.

$30,000 Invested

Top 3	Bottom 3
$166,713	$13,561

[illegible] Merrill Lynch America an [illegible] I recommend mutual funds because they provide the following:

1. Professional Management

[illegible] qualified professionals make the investment decisions.

2. Diversification

[illegible] in a given mutual fund, the fund can easily diversify its [illegible] owning many different securities, the mutual fund can reduce the impact of one poor selection.

3. Minimum Investment

[illegible] somewhere between $250 and $1,000.

4. Ease of Investment

[illegible] ment, group purchase or automatic salary deduction.

5. Variety of Objectives

[illegible] details of the fund's philosophy and operations.

6. Marketability

[illegible] than your original investment.

[illegible] you would [illegible] when you needed cash [illegible]

However, when you redeem only a part of your holdings in a mutual fund [illegible] you may reduce the number of shares you own [illegible] the fund's entire portfolio.

7. Systematic Income

When you get ready to retire [illegible] mutual fund [illegible] withdrawal plan [illegible] permits you to receive a systematic income check from the fund.

8. Exchange Privilege

Most [illegible] exchange privilege whereby you can [illegible] your investment whenever you [illegible] exchanging shares [illegible] shares of another within the same family [illegible] for a [illegible] you get [illegible] shares in [illegible] growth fund [illegible] shares of [illegible] in the form of monthly [illegible] Exchanging mutual fund shares [illegible] the [illegible] fund is an IRA.

9. Investment of Fixed Sums in Full and Fractional Shares

Normally you [illegible] buy fractions of a share in a corporation's stock. However, with a mutual fund you [illegible] purchase full and fractional shares.

10. Performance Results

[illegible]

[illegible] going [illegible] take a look at what the average growth [illegible] fund [illegible] done for you during the past 10 years. A growth [illegible] fund [illegible] long-term growth [illegible] principal [illegible] Again, let me emphasize that the results are what happened in the past [illegible] the future.

Many times when [illegible] people ask, "How do [illegible]?" The following chart graphically illustrates the difference.

For example [illegible] investment would have [illegible] Average [illegible] Standard & Poor's [illegible] worth a thousand words.

Compare your investment
$10,000 lump sum invested for a 10-year period

COMPARE A MUTUAL FUND*

[illegible] December 31, [illegible]

Professional management can make a difference

[illegible] Average during the stated [illegible] no adjustment has been made for any income taxes payable. You should also note that the ten-year period ([illegible]) was a period of fluctuating but generally rising [illegible]

To see how a mutual fund would have worked for you, ask a Registered [illegible] Representative [illegible] Accumulation Plan and [illegible] you wish, a Systematic Withdrawal Plan. [illegible] provided free upon request.

Take advantage of mutual fund tax benefits.

In Principle Number 6, we discussed the importance of minimizing taxes by using an Individual Retirement Account. What about savings that are not in such a tax qualified plan?

When [illegible] interest [illegible] Mutual funds, however, provide a tax advantage [illegible] dividends [illegible] Mutual [illegible] gains distribu[illegible] long term capital gains.* The advantage [illegible] included in your taxable income.

Finally, mutual funds in general have done quite well over the last decade. According to [illegible] Charts Growth Fund Average, the average long-term growth mutual fund appreciated [illegible] for the [illegible]-year period ending December [illegible]. This is not to say that mutual funds will do as well in the future — remember there are no guarantees. But [illegible] say [illegible] am glad I had a portion of my investment dollars in mutual funds during that period.

Obviously, others agree. [illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible] or failure.

The record speaks for itself

Isn't it time you considered mutual funds?

PRINCIPLE #9

START A FAMILY TRADITION

Problem [illegible] *freedom for you and your family*

Solution [illegible] *family and start a tradition that you can pass on for generations to come*

[illegible] begin [illegible] financial independence that can continue for generations.

Begin a Generation-to-Generation Investment

[illegible] GENERATION-TO-GENERATION INVESTMENT [illegible] concepts

Let me give you an example

[illegible] start with nothing [illegible] saving $100 a month [illegible] $91,121 [illegible]

A. $100 a month x 20 years = $91,121

B. [illegible] $50,000

C. [illegible] college = $41,714

D. [illegible] $41,714 would grow to over $3,000,000. Your children and their [illegible] considerations). Then your family, for generations, could use [illegible] pass it on to the next generation.

[illegible] month, but you get the idea.

[illegible] and your

[illegible]

[illegible] lasting impression over the years

[illegible] get if they have some input into the family's plans

[illegible]

1. BE AN EXAMPLE OF GOOD FINANCIAL PLANNING. [illegible]

Be a good example

2. ENCOURAGE YOUR FAMILY TO SAVE. [illegible]

[illegible] Once [illegible] little thing like this can go a long way in helping to build a positive attitude

[illegible]

[illegible] matter of pride and accomplishment.

[illegible] and help our children make wise decisions.

[illegible] INSTILL AN "EYE" FOR INVESTMENT [illegible] economics lesson.

[illegible] teach the principles of wise investment.

[illegible] consistency will help.

[illegible] **GENERATION TO GENERATION INVESTMENT** [illegible]

[illegible] dollars a month will serve as the foundation for financial pride [illegible] family — from **GENERATION TO GENERATION**.

[illegible]

DEVELOP A WINNING ATTITUDE

PRINCIPLE #10

Problem. *[illegible] you expected during the journey*

Solution. *[illegible] excited, confident attitude about life*

[illegible] for thought" about your own attitudes

LIFE WILL GIVE YOU WHATEVER YOU WILL ACCEPT.

[illegible] accept [illegible] accept [illegible] accept [illegible] accept [illegible] your [illegible] your [illegible] you're right

FOR THINGS TO IMPROVE, YOU MUST IMPROVE.

YOU MUST EXPECT TO SUCCEED [illegible] **expectation of success** [illegible] their own [illegible]

Expect success

[illegible] happen, believe me, it will happen

[illegible] Most people are [illegible]

[illegible] afford [illegible] day. Most people are heavily in debt because their desires are stronger than their will to win.

Can you live with being average and ordinary? If not, you will be successful.

EXCUSES ARE THE EASY WAY OUT.

Everyone has a convenient excuse [illegible]: *"I don't have any money." "[illegible] don't have time." "I'll do it tomorrow." "People like me don't have a chance." "I can't change after all these years."*

Excuses don't count. Everyone has [illegible] **right now** [illegible] independence. You **can** do it!

YOU MUST DEVELOP A WINNING ATTITUDE IN ALL AREAS.

There is a common denominator to success.

[illegible] successful people. They all possess a winning attitude. They have the ability [illegible] goals [illegible] what happens along the way. The greatest [illegible] of A WINNER I've ever seen goes like this:

> Most people can stay motivated for two or three months.
> A few people can stay motivated for two or three years.
> But a **winner** will stay motivated **for as long as it takes** to win.

[illegible] was [illegible] *Think and Grow Rich*, written by Napoleon Hill. [illegible]

> Step #1 **YOU MUST HAVE A SPECIFIC GOAL.** I was [illegible] as Athletic Director and Head Football Coach. After [illegible] of thinking and working [illegible] \$30,000 a year guaranteed [illegible].

Step — **YOU MUST HAVE A SPECIFIC TIME TO ACHIEVE YOUR GOAL.** [illegible]

Step — **YOU MUST WRITE IT DOWN.** [illegible]

Step — **YOU MUST DEVELOP A PLAN TO ACHIEVE YOUR GOAL.** [illegible]

[illegible]

[illegible] $200,000 [illegible]

Step — **YOU MUST DECIDE WHAT KIND OF PRICE YOU ARE WILLING TO PAY.** [illegible] There is no free lunch.

[illegible]

Step — **YOU MUST THINK ABOUT REACHING YOUR GOAL EVERY DAY.** [illegible]

Are you willing to pay the price?

[illegible] will help you reach your goals.

BECOME A DREAMER AGAIN

If you don't feel you have a winning attitude, how can you develop one? If you want to be "A WINNER" you've got to become a "DREAMER" again. Most people in America have stopped dreaming. They grew up with someone telling them how special they are. They [illegible] somebody that they [illegible] be proud of. Then they are thrown out in the big bad world [illegible] taking advantage of them. These once enthusiastic people [illegible] begin to develop an attitude that "**life has passed me by — life has dealt me a bad hand!**"

To win in life, I believe you must become a dreamer again. **You must be excited, confident and turned on about life.**

I dreamed every day for years about how great it would be to be financially independent. Those dreams kept me going when times were tough. But you know what I found out? Being financially independent was 100 TIMES GREATER than I dreamed it would be. [illegible] how much greater is being financially free unless he is there himself. [illegible] financially independent who hasn't paid a big price but who doesn't look back and say "I was [illegible] if I had known how GREAT it would be, I would have been willing to pay a price 10 times greater."

You can become what you dream about

One of the things I love about the United States and the free enterprise system is that **you can become what you dream about.** [illegible] **family if you want to badly enough!**

[illegible] everything. Developing a winning attitude may be the most important thing [illegible] once you have that quality, everything else you want **can be accomplished.**

[illegible] **have a choice** [illegible] **financially free or always worried about money.**

[illegible]

[illegible] **become totally financially independent.**

GOOD LUCK!

I [illegible] today [illegible] now

"MANY RECEIVE ADVICE; ONLY THE WISE PROFIT BY IT."

— Syrus

[illegible]

[illegible]

Endnotes

[illegible]

2 U.S. Census Bureau, 1980 Census of Population and Housing, Washington, D.C.

[illegible]

4 U.S. Census Bureau, 1980 Census of Population and Housing, Washington, D.C.

5 Ibid.

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8 Investment Company Institute Research Department, December [illegible]

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12 U.S. Treasury Decision Number [illegible]

13 A.M. Best Company, *Best's Flitcraft Compend*, Oldwick, NJ, 1987, pp. [illegible]

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section. That should help you decide where to invest.

[illegible]
average home price (weighted average).

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PERSONAL BALANCE SHEET

What You Own

CASH

SECURITIES

REAL ESTATE

LONG-TERM ASSETS

PERSONAL PROPERTY

Clothing and jewelry

Collectibles (art, gems, etc.)

Other personal property

TOTAL

What You Owe

BILLS

MORTGAGES

LOANS

TAXES

OTHER DEBTS

TOTAL

What You Own Minus What You Owe Equals Your Net Worth.

FINANCIAL WORKSHEET

INCOME:

Salary $

Bonuses

Interest income

Dividends

Rental or property income

Social security

Pension income

Alimony and/or child support

Other income

TOTAL INCOME:

FIXED EXPENSES:

House payment/rent $

Utilities

Water

Automobile loan

Other loans

Property taxes

Phone bill

Life insurance premium

Health insurance premium

Other insurance

Other fixed expenses

TOTAL FIXED EXPENSES:

VARIABLE EXPENSES:

Food $

Clothing

Home furnishings

Home repairs

Major appliance purchases

Transportation/gas

Savings

Investments

Child care

Domestic help

Cleaning/laundry

Medical costs

Entertainment

Recreation (vacation, etc.)

Gifts and charitable contributions

Emergency expenses

Other

TOTAL VARIABLE EXPENSES:

TOTAL EXPENSES:

Arthur L. Williams, Jr.
Chairman of the Board
Chief Executive Officer
The A.L. Williams Corporation

ABOUT THE AUTHOR

Arthur L. Williams, Jr., came into the financial planning arena through the back door. He didn't study finance in school. He didn't inherit a relative's business. He was introduced to the fundamentals of financial planning in the midst of a successful career as a football coach in Columbus, Georgia. A friend exposed him to the philosophy of "buy term and invest the difference." From this first exposure, Williams entered the financial world in the only way he knew — he began working part time in the insurance and securities field. He studied, he read and he talked to everyone he met who might have any knowledge and expertise in insurance and related financial topics.

Most significantly, he followed the concepts he learned. He saved money, he invested where he could with his available funds, he took part time jobs to earn more. Eventually, he achieved his own personal goal: he started his own company. The formulas he learned for "taking charge" of his own financial future worked. In his own business, Williams continued to use the sound financial principles he had applied to his personal life in the operation of his business.

Today, Arthur L. Williams, Jr. is a multi-millionaire. His company A.L. Williams & Associates, Inc., has come from modest beginnings in 1977 to a company with a sales force which has sold billions of dollars in business. The A.L. Williams sales force is one of the fastest-growing marketing organizations in America today, doing business in 49 states, District of Columbia, Canada, Puerto Rico and Guam.

The most amazing thing that Williams discovered on his personal path to financial success was that the key elements for building financial independence are astonishingly simple. It's not a matter of complicated maneuvering and doesn't involve huge sums of capital.

The principles in **Common Sense** are simple. Anyone can follow them easily, regardless of age, income level or past financial experience.

Williams learned about financial management, both individual and corporate, the hard way — by trial and error. Many would say that's the best way. His goal in **Common Sense** is to share these principles in the hope of helping others to achieve the freedom of financial independence.

Art Williams doesn't consider himself a financial "expert." He is, in his own words, "someone who made it," someone who wants to share with you what he learned along the way.

Common Sense offers a solid, down-to-earth plan for building a strong financial foundation. But it also offers that important ingredient, HOPE — hope that the average person can reach his or her financial goals. Once you've read **Common Sense**, there's no excuse for not achieving financial independence. Or, as Art Williams likes to call it, FINANCIAL FREEDOM.

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